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MAKING TRANSITIONS PAY!

Towards a European Employment Insurance Strategy (EEIS)

Erik de Gier and Axel van den Berg

Erik de Gier is professor of Social Policy at the University of Amsterdam and director of SISWO/Social Policy Research. From the 1st of September 2005 he will be director of ITS/Institute for Applied Sociological Research, Radboud University Nijmegen.

Axel van den Berg is a professor of Sociology at McGill University Montreal and currently Marie Curie Fellow at SISWO and AIAS.

A policy analysis based on the EU-project Managing Social Risks through Transitional Labour Markets (TLM.NET)

List of Abbreviations

ALMP	Active labour market policies
CVT	Continued vocational training
EI	Employment Insurance
EES	European Employment Strategy
EEIS	European Employment Insurance Strategy
EPL	Employment Protection Law
ESM	European Social Model
ET	Education and training
ETTs	Education and training related transitions
EU	European Union
LLL	Life-long learning
ILO	International Labour Organization
IWB	In-work benefits
MWP	Making work pay
MTP	Making transitions pay
OECD	Organization for Economic Co-operation and Development
OMC	Open Method of Co-ordination
PES	Public Employment Service
PP	Position paper
SRM	Social risk management
TA	Technical Annex
TLM (s)	transitional labour market(s)
UI	Unemployment insurance
WZB	Wissenschaftszentrum Berlin

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EXECUTIVE SUMMARY

TLM.NET-research provides abundant evidence for the proposition that at present new labour market risks related to employability and childbirth affect many workers. These risks are most notable when workers have to pass through critical transitions in their working careers, such as transitions from school to work, from unemployment to employment, within employment and from employment to caring or retirement. Factors contributing to high vulnerability in this respect include low skill levels, in combination with age, gender and having (young) children. There is even evidence that the position of the low-skilled is gradually deteriorating when compared with the better-skilled workers. Labour market dynamics also show that the number of fixed-term contracts is gradually increasing, as is part-time work, at the expense of permanent contracts. In this context employers prefer to invest in training of the already better-educated part of their workforce. This results in a further segmentation of the labour market in many European countries. In particular, the relative productivity of the lower-skilled is deteriorating and as a result the probability of becoming long-term unemployed for these workers is increasing in many European countries, independently of the specific nature of the national welfare state. It looks as if the actual balance between flexibility and equity is shifting more and more in the direction of flexibility.

‘Making Transitions Pay!’ is the central message of the TLM-approach, developed by an international network of academic labour market researchers. It is an attempt directly to connect academic insights with policy making. TLM, which stands for ‘transitional labour markets’, is first of all a ‘Third Way’ approach, seeking to combine competitiveness and social cohesion, or, put in other words, ‘flexibility’ and ‘security’ or ‘equity’. Complementary to the common stock-oriented approach as applied in the European Social Model and the European Employment Strategy, TLM emphasises the importance of a life-course approach in developing and designing European labour market policies. So, transitional labour markets are labour markets that permit and promote mobility over the life course between the range of labour market related statuses, including between jobs, occupations, employers, different types of employment contracts (part-time, full-time, permanent, temporary), unemployment and employment, temporary leaves, training and employment, and employment and (partial) retirement. TLMs acquire added importance in the context of a competitive knowledge economy, where the required skills and knowledge are changing faster than in a mainly industrial economy, and where, as a consequence, the need for a flexible workforce increases.

This analysis summarises the possible policy implications of TLM.NET, a Fifth Framework Program-project carried out between 2002 and 2005 by a network consisting of a little more than 20 research institutions in the EU and Canada. In this period the network carried out and summarised national and comparative research with respect to all relevant labour market transitions in the life course of workers (a concise summary of the main results of our research can be consulted at a glance in Chapter 6 below on page 48).

The EU Employment Strategy (EES) and the Lisbon-targets adopted by the European Council in 2000 (including subsequent modifications) define the policy-relevant context of TLM.NET. According to them, by the year 2010 the EU needs to be a globally competitive knowledge economy with high employment rates and a high level of social inclusion. This combination of goals refers directly to one of the main aims of the TLM-approach: a successful combination of flexibility and security on the European labour market.

We have assessed the various research contributions of TLM.NET from this perspective. The three main questions underlying our policy analysis are:

- To what extent does or can the TLM-approach contribute to the EES and the realisation of the Lisbon-strategy?
- To what extent does the TLM-approach reinforce the European Social Model based on a balanced policy mix of competitiveness and social cohesion?
- To what extent does or can the TLM-approach contribute to making European labour markets more life-course friendly?

The work of the TLM.NET-group points in the direction of the need to adapt the present European Employment Strategy (EES) towards what we have called a *European Employment Insurance Strategy* (EEIS). This is nothing more and nothing less than embedding more explicitly the life-course oriented transitional labour market approach in the EES with the ambition to make the EES more effective and sustainable. Both our research and official European Statistics show that the realization of the aims of the EES is lagging in a context of modest economic growth. There are serious doubts among policy makers that the ambitious goals of the EES can be realised before 2010. Structural adjustment of the European economies towards a globally highly competitive economy proves to be much more difficult than was foreseen at the beginning of the new millennium. This has prompted many European governments to reassess the existing balance of flexibility and security in labour market

policies. If this is not done in a proper and equitable manner, however, this rather precarious balance, which is at the same time the hard core of the European Social Model, can easily be disturbed. Our research shows evidence that in reforming labour market policies the EU and national governments are confronted with a number of rather fundamental and potentially controversial policy questions, closely connected with the main transitions of workers during their life course. These are:

- (a) The need to reconsider forms of social protection that may protect some at the expense of others
- (b) The need to redefine to some degree the balance between collective and individual responsibilities in managing social risks
- (c) The need to target social programs to those most in need of them, rather than sticking to traditional universalistic arrangements
- (d) The need to invest massively in training and education on a life-long career basis of selected groups of vulnerable workers
- (e) The need to increase efforts to overcome the still unequal gender division of labour
- (f) The need to activate older workers, possibly also requiring selective rather than universalistic solutions

In this perspective, for example, implementing in-work benefits or tax credits in still mainly universalistic systems proves to be ineffective in such a way that long-term unemployment remains relatively unaffected while at the same time social security entitlements are reduced. Other examples of ineffective policies are the joint reduction of entitlements on unemployment insurance and employment protection. And, as the currently successful Danish model shows, next to private investments by companies, massive public investments in life-long career training activities may prove to be effective in particular in producing significant improvement of the productivity of the labour force and therefore also the labour market participation of the most vulnerable workers: low-skilled workers, women and younger and older workers. Finally, efforts to help equalise the gender division of labour, domestically as well as in the labour market, through parental leave programs are likely to be relatively ineffective as long as a significant male-female earnings gap persists.

Thus, in confronting these issues policy makers need to have an open mind and will also sometimes have to opt for unorthodox policy measures. In this context it is crucial that

member states learn from best practices elsewhere and, moreover, are able to improve the efficacy of policy measures on the basis of a commonly shared framework. With this aim in mind, we propose a European Employment Insurance Strategy as a complement to the EES. The EEIS, intended as a concerted effort to develop and improve social risk management, is a three-layered strategy (EU, national and sectoral levels) in which different risks (class risks, gender risks and life course risks) are contrasted with different kinds of policies (as regards to risk prevention, risk mitigation and risk coping respectively) with the intention of making not only the labour supply more flexible in adjusting to fast-changing labour market conditions but also to provide the workforce with better instruments to adapt to these changes by increasing their employability as well as their social security during critical transitions in the life course. Table 5 on page 56 summarises and specifies the possible content of the EEIS in more detail. As is the case with the EES, in the context of the EEIS member states and social partners retain the necessary discretion to select the policy mix of flexibility and security that suits their own welfare state model best.

1. Introduction

The combined forces of ‘globalization,’ the ICT ‘revolution’ and the consequent rise of the ‘knowledge-based economy’ are widely held to pose mounting competitive pressures the advanced industrialized economies. The apparently sharply contrasting ways in which the economies of the Anglo-Saxon countries and those of most of the countries on the European Continent have responded to these new challenges are much debated among academics and policy makers alike. Whereas the Anglo-Saxon economies, with their relatively low levels of governmental regulation and social protection, are said to have adjusted flexibly in terms of structural change, productivity growth and job creation to the new competitive pressures, albeit at the cost of high levels of earnings inequality, social insecurity and poverty, the Continental economies appear to have opted for maintaining traditional levels of social protection, but at the cost of slow economic growth and high levels of unemployment. Among social scientists as well as policy makers, the contrast has produced a revival of the age-old debate about the nature and (in-)escapability of the of a trade-off between equity and efficiency, a debate that has been at the very core of the modern social sciences since their very beginnings.

For those who would argue that the trade-off is indeed inevitable and inescapable, the contrasting trajectories of the Anglo-Saxon and the continental countries represent the only two realistic options available in the modern world economy. One can *either* choose for relatively unfettered markets and high levels of inequality to foster greater flexibility and efficiency, *or* one can maintain generous levels of social protection and less inequality while accepting relatively inflexible and inefficient economies, *but one cannot have it both ways*. Interestingly, proponents of this view can be found on both ends of the political spectrum, among those neoclassical economists and ‘neoliberal’ politicians advocating deregulation in order to foster economic growth as well as among other social scientists and politicians of the traditional left who are prepared to put up with relatively lower levels of economic growth if that is what it takes to keep the traditional welfare state and political regulation of the market intact.

There has, however, always been a third strand of thinking as well, one based on a fundamental questioning of the validity of the equity/efficiency trade-off assumption. Elements of this line of thinking can be found as much in the works of Adam Smith as in

those of Emile Durkheim, as much in the arguments of Karl Polanyi as in those of modern neo-institutionalist economists. According to this line of thinking, there may be *certain forms* of social protection and government regulation that are indeed counterproductive in terms of their effects on economic efficiency and flexibility, but that there are others that, if properly designed, may well have the opposite effect of *enhancing* economic efficiency. In the currently popular terminology, the argument is that some forms of social protection may actually be a ‘productive force’. This was a powerful underlying theme in the early justifications for ‘active labour market policies’ and ‘wage solidarity’ preferred by the architects of what was once known as the ‘Swedish Model’ (see van den Berg et al., 1997). It is likewise a basic assumption behind the much-discussed European Employment Strategy to produce the world’s most competitive economy *without* serious erosion of social protection and inclusion (see section 4 below). It is also the basic idea that animates the recent literature on ‘transitional labour markets’ (see section below and section 2). This literature can be seen as, *inter alia*, a sustained social-scientific effort to specify the conditions and ways in which high levels of protection against social risks associated with the modern economy and labour market may actually *contribute* to greater economic and employment flexibility.

This paper examines the policy implications of the latest research carried out within the framework of ‘transitional labour markets.’ Participants in the thematic European research network TLM.NET have conducted this research during the period 2002-2005, at the EU-level as well as at the level of the EU member states. The broader policy relevance is to a large extent defined by the EU Employment Strategy (EES) and the Lisbon-targets adopted by the European Council in 2000. According to these, by the year 2010 the EU needs to be a globally competitive knowledge economy with high employment rates and high levels of social inclusion. As a matter of fact, this combination of goals refers directly to one of the main aims of the TLM-approach: a successful combination of flexibility and security on the European labour market. At the same time the TLM-approach implies a life-course orientation, also adopted to some extent in the EES. We have assessed the various research contributions of TLM.NET from this perspective. The three main questions guiding our policy analysis are:

- To what extent does or can the TLM-approach contribute to the EES and the realisation of the Lisbon-strategy?

- To what extent does the TLM-approach reinforce the European Social Model based on a balanced policy mix of competitiveness and social cohesion?
- To what extent does or can the TLM-approach contribute to making European labour markets more life-course friendly?

In the Technical Annex (TA) of TLM.NET the main aim of the project was defined as contributing to the modernisation of the European Social Model (ESM). Based on the concept of transitional labour markets (TLMs) and the life-course perspective, options for the further development of the ESM were explored by means of (comparative) analyses of welfare regimes and the local, regional, national and European potential for social innovation.

TLMs imply new combinations and new balances of working, learning and social activities that promote the quality of life and overall well-being during the life courses of European citizens. Essentially, TLMs refer to the management of social risks by individuals, families, companies and state institutions. In this context social risks are defined as critical life events and transitions that might entail lasting disadvantages, social exclusion or poverty.

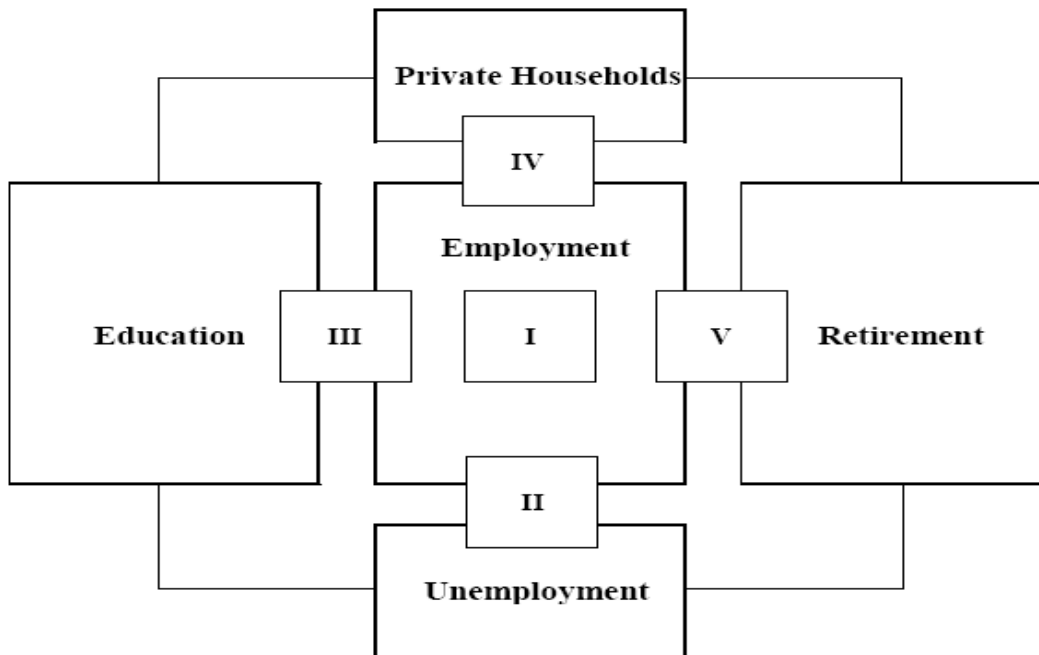
The key hypothesis of the project was that the boundaries between the labour market and other social systems (education, family and household structures, market production and home production) need to be ‘developed’ so as to allow smoother transitions between them and new combinations of activities in order to address new social risks, reduce structural unemployment and prevent further segmentation of labour markets. In other words, the issue is how to achieve social integration through labour market employment policies, not only by making work pay, but also by making transitions pay (See also Box 1).

Box 1: The TLM-concept

Transitional labour markets are labour markets that permit and promote mobility over the life course between the range of labour market related statuses, including between jobs, occupations, employers, different types of employment contracts (part-time, full-time, permanent, temporary), unemployment and employment, temporary leaves, training and employment, and employment and (partial) retirement.

This project builds further on the earlier comparative TRANSLAM-EU-project co-ordinated by the WZB, which focused on social integration through transitional labour markets. On the basis of this earlier research project five types of transitions and critical events in the life course were distinguished, which will also be addressed in this document. They are illustrated and listed in Figure 1:

Figure 1: Labour Market Policy as a Strategy of Transitional Labour Markets



- I Transitional arrangements between short-time working and full-time employment or between dependent work and self-employment
- II Transitional arrangements between unemployment and employment
- III Transitional arrangements between education and employment
- IV Transitional arrangements between private domestic activities and employment
- V Transitional arrangements between employment and retirement

Before summarising and interpreting the main results of the project *Managing social risks through transitional labour markets* we will first have a closer look at the content and development in recent years of the TLM-concept (Chapter 2). As will be explained, the TLM-concept combines practical, theoretical and normative elements, but is mainly policy oriented. Then we will briefly explain the methodology of policy analysis used in this document (Chapter 3). This will be followed by a brief evaluation of the actual state of affairs relating to the EES (Chapter 4). Next, the main body of the policy analysis will be devoted to the major policy-relevant results of the *Management of social risks*-project, TLM.NET (Chapters 5 and 6).

In the final Chapter of the document (Chapter 7) we discuss some of the more general implications of our findings in particular with respect to the EES.

2. A Closer Look at the TLM-concept¹

The challenge for the TLM-approach is to contribute to the realization of the EES, and therefore also the European Social Model and the Lisbon-strategy respectively, by complementing or enriching it with a dynamic, life-course sustainable, activating labour market approach from both a political and a normative viewpoint. Thus far, such a complement is lacking in the official European labour market policy, at least in a more formal sense. A core piece of the European Social Model is the European Employment Strategy (EES)², which is focused on improving substantially the labour market participation rate and the quality of work of various categories of workers by activation policies and through this also on preventing poverty and social exclusion. Apart from these objectives, the EES also aims to contribute to a containment of public expenditure for the ageing European population (See also Chapter 4 below).

Despite important adjustments, the actual EES still mainly consists of a static *stock approach* based on a rather traditional norm of full employment instead of a more *dynamic flow approach* that takes into account the increasing need and number of transitions on, towards and from the labour market in a life-course perspective. These transitions include temporary or more permanent moves from employment to unemployment and back, transitions from education to employment and back, from employment to caring and back and from employment to (early) retirement. Transitions are influenced by pull as well as by push factors and also generate (increasing) external and internal social risks. The notion of social risk or social risk management is extremely important in the framework of TLM.

In general social risks can be divided into *class risks*, *life course risks* and *intergenerational risks*³. Risks are not static and vary over time. Concrete examples of more traditional external and modern internal ('manufactured') risks connected with the labour market are: the poverty and long-term unemployed risk, the low skill or employability risk, the age risk, the caring risk (mostly of young working women), and the flexibility risk. These risks have to be managed in a timely and appropriate manner by a combination of various institutions and

¹ This chapter is mainly based on a few key publications about the TLM-concept. The most important are: Schmid (2002), Schmid and Gazier (2002), Schmid and Schömann (2004) and Schmid (2004)

² As expressed in the Lisbon-strategy, directed at making the EU the most competitive knowledge economy in the world by 2010. See European Commission (2004c)

³ Esping-Andersen (1999)

social actors. These are not only employees, but also the state, enterprises, and families respectively.

The reason for taking on board the notion of social risk management is the increase of risks for individual workers in today's labour markets. As a result of intensifying international competition, enterprises experience a growing need for a workforce that is rapidly adjustable to new economic and technological circumstances. This puts heavy pressure on the *employability* of individual workers, not only at a certain moment in time, but during the entire working life. On the other hand, processes of individualisation are causing a rise in so-called critical life events, such as divorce, the need to combine paid work and caring during the rush-hour of life, etc. This means that workers in the present and future labour market do not only have to deal with the traditional risk of income loss caused by unemployment, sickness or retirement, but also with new risks that arise because of deliberate individual choices. These are the so-called internal or 'manufactured' risks. The whole picture becomes more complicated when we take into account the economic policy of the European Union directed at a speedy restructuring of the European economy towards a highly competitive knowledge-based economy. This particularly jeopardizes the position of the low-skilled in Europe by creating more internal economic shocks at an accelerating speed. Their position on the labour market is, as statistics show, becoming more precarious. They are, for instance, more likely to end up as long-term unemployed and once unemployed, the road back to the labour market has become much more complicated than in the past industrial economy.

It is therefore imaginable that *social policy* as we used to know it, will have to be replaced by more modern *social risk management* (SRM) which in principle will be better equipped for cushioning the effects of economic shocks, in line with what Günther Schmid, the founder of the TLM-approach, has proposed (Schmid 2004) (See also box 2).

If we combine the TLM-approach with the EES, this does *de facto* imply implementation of *social risk management* in European social policies. An additional requirement in this respect will then also be to redefine the existing traditional norm of 'full employment' based on the standard working week of 36-40 hours per week between the ages of 20 and 65. Another important founder of the TLM-approach, Bernard Gazier, recently came up with some interesting suggestions in this respect (see Table 1).

Box 2: Social Risk Management according to Günther Schmid

In one of his latest contributions Günther Schmid has further refined the concept of social risk management (SRM). His main objective is to clarify that the intrusion of the term risk management into the social policy discourse needs to be seen as a *moral opportunity* for reconsidering the balance between solidarity and individual responsibility. Schmid sees this intrusion as inevitable. The main question the intrusion of risk management into the social policy domain raises, then, is to what extent and under what conditions individuals could take over more responsibility *vis-à-vis* the state, families and the employers. This question deals with the core element of *embedded employability* in the theory of TLM, that is, with the need to “establish functioning opportunity structures to guarantee meaningful and decent employment over the life cycle.”

SRM consists of the following three aspects: *risk prevention*, *risk mitigation* and *risk coping*. The problem with SRM is that people perceive risks in a way that easily leads to *non-rational* choices or asymmetric perceptions of risks resulting in risk-averse behaviour, speculative risk-taking behaviour, overestimating minor risks/underestimating major risks. As a consequence, proper SRM means two things: a) appropriately framing risks, and b) designing policies that reduce or compensate for asymmetric risk perceptions.

Concerning a) Schmid distinguishes three major new risks on the labour market:

- (1) The increasing risk of social exclusion related to failures in education and training (affecting in particular low-skilled workers whose opportunities of labour market participation are seriously affected);
- (2) The increasing risks of precariousness related to temporary jobs and compressed work careers (affecting in particular the young and especially young women between 20 and 35, among whom the proportion with temporary work or fixed-term contracts is increasing);
- (3) The increasing risk of long-term unemployment or forced inactivity related to the erosion of internal labour markets (affecting older workers in particular).

As regards to b) Schmid proposes first of all to make better use of existing figures by replacing the usually preferred *probabilities* with *frequencies*, which, he argues, are more practical and therefore also more effective in the case of social risk management, before designing policies aiming at the prevention, mitigation and coping of risks.

One question needs to be answered in the end and that is, who shall be responsible, or what will be the new balance of public-private risk sharing? The answer can be found by considering whether the risks are caused by individual choice or external circumstances and whether the consequences of risks can be borne individually or exceed individual capacities and should therefore be managed collectively. On this basis four ideal types of SRM can be distinguished:

I. Individual responsibility, II. Solidarity responsibility, III. Individual solidarity, and IV. Collective solidarity.

On this basis Schmid finally proposes to introduce some form of employment insurance, replacing the old unemployment insurance system and containing not only unemployment insurance, but also provisions covering risky transitions, such as wage insurance, time accounts, training or learning accounts, vouchers, entitlements to training, etc. The background idea of embedded employability requires social partners to take on a more active and innovative role in this respect⁴.

⁴ See also: Schmid (2004a)

Table 1: The old and the new norm of full employment⁵

Traditional norm	TLM norm
<ul style="list-style-type: none"> • Keynesian • Collective social integration • Strong social contract • Male breadwinner • Stable employment • 40 hours per week 	<ul style="list-style-type: none"> • ‘Third’ Way • More individual autonomy • De facto weaker social contract • Gender equality • Flexi-curity • Life course approach, 35/30/25 hours per week

In the end, old and new social risks have to be managed properly by the various institutions and social actors on the basis of trust and social responsibility in favour of the well-being of European citizens as well as the European economy.

The substance of TLM-like social risk management, in principle, is built around four consecutive pillars. These are: unemployment insurance (1st pillar), mobility insurance (2nd pillar), transfers aimed at equality of opportunity (3rd pillar) and private insurance (4th pillar). In addition life long learning and training is an essential requirement. The four pillars together imply a fundamental change from the traditional passive (income replacing) social unemployment insurance to so-called *activating* employment insurance. Furthermore, the TLM-approach constitutes a move from the *active labour market policies* widely embraced in the EU, towards *activating labour market policies*. This means fully taking into account a life-course perspective and the accompanying dynamics or transitions over the life course as put forward in Figure 1, and not only compensating for the loss of income after a job loss and ‘making work pay’, but also ‘making transitions pay’.

Although the EES formally does not cover the TLM-approach, member states introduced, or are planning to introduce activating labour market measures that in principle also fit very well in the TLM-approach. It therefore also becomes quite important to make use of *best practices* and to find out about intended and unintended consequences through comparative policy learning between the member states. In this respect it is furthermore important to distinguish *good* from *bad* transitions during the life course on the basis of the following four criteria: individual freedom, solidarity, effectiveness and efficiency⁶. For instance, accepting low-skilled or temporary work after quitting permanent skilled employment is only a good

⁵ Derived from: Gazier (2004)
⁶ See Schmid (2000)

transition if this works as a stepping stone to renewed permanent skilled work. If it contributes to a further deterioration of the employment position it can be seen as a bad transition or even as an employment trap from the perspective of TLM. Muffels et al. (2004) have inventorised examples of policy measures that point in the right direction. For transition III between education and employment, they stipulate, for example, the actual systems of dual learning in Germany and the Netherlands and educational leave arrangements in Denmark; for Transition I within employment, they mention, for example, *Kurzarbeit* in Germany (short-time benefit) and for Transition II between unemployment and employment, they refer to temporary employment in the public sector in various countries⁷.

As member states develop their national employment strategies by means of the open co-ordination method (OMC) they also try to learn from experiences abroad⁸. A good example of this is the *Agenda 2010* in Germany. As far as labour market policies are concerned, *Agenda 2010* is strongly inspired by the successful performance of the Dutch labour market in the 1990s. In this respect it is important to realise that the European Social Model is composed of various types of welfare states⁹. The most commonly used classification is social-democratic welfare states (the Nordic countries), corporatist or conservative welfare states (the continental EU countries), liberal welfare states (UK and Ireland) and ‘Southern’ or ‘Mediterranean’ welfare states (Italy, Spain, Portugal, Greece). Each type is characterized by a different mix of institutions administering social policy, and each type knows good and bad performers.

The mere existence of various types of welfare states in the EU immediately points to the question to what extent countries will be able and at the same time willing to learn from each other. There are big differences in policies and polity (make-up of institutions) between countries, and apart from that path dependency limits the effective reform capacity of welfare states that try to implement successful solutions from elsewhere. Having said this, the actual OMC-process in the EU nevertheless is causing or may cause some convergence of welfare state developments, first of all in the direction of implementing active labour market policies and also to some extent in introducing more activating policies. The objective is that member states learn from each other by looking at both good and bad practices. Thus, the TLM-

⁷ Muffels, Ruud et al. (2004)

⁸ See for example Schmid and Kull (2004).

⁹ See for instance: Kemmerling and Bruttel (2005)

concept may also serve as a source of inspiration and as a policy-learning concept for Member States' social policy or, even more appropriately, social risk management.

Conclusion

The TLM approach can be seen as a more or less logical next step of institutionalised labour market policies. From a historical viewpoint, labour market policies started with 'passive' policies, mainly focused on delivering social unemployment benefits in case of temporary unemployment of workers. Passive labour market policy covered the classical external risk of unemployment. From the 1980s and 1990s onwards, passive labour market policies were complemented by more active ones, directed at the prevention of unemployment or at reducing the period of unemployment substantially. Active labour market policy includes measures like timely training or retraining of workers, introducing subsidized jobs as a step up to non-subsidized paid work and increased efforts of Public Employment Services (PES) to reintegrate unemployed workers¹⁰.

Because of important changes in the European economy, such as the increased labour force participation of women, the increasing importance of the (early) retirement behaviour of older workers, the increased precariousness of low-skilled workers, increasing needs of flexibility of both workers and employers, active labour market policies have to be complemented by even more activating policies. Activating policies are necessary to ensure that the shrinking working population, as a result of the ageing process, will be optimally activated by avoiding unnecessary and from the social viewpoint also unacceptable temporary or permanent exclusions from the labour market. Therefore, it is necessary to redefine, first, and at the same time to extend the goal of full employment. The TLM-concept can, as we will argue later on, play an important role in this. Finally, putting together the various jigsaw pieces presented up to now, the following comparative picture between *active* and *activating* labour market policies can be drawn (see Table 2).

¹⁰ See Auer (2002)

Table 2: Active versus activating labour market policies

Active Labour Market Policy	Activating Labour Market Policy
Social policy	Social Risk Management
Job security	Employment Security
+	+
Income security	Transition Security
Unemployment Insurance	Employment Insurance
Old Employment Norm	New Employment Norm
Making Work Pay	Making Transitions Pay

3. Methodological Note

This document is a policy analysis derived primarily from a review of the findings of the TLM-project and mainly consists of an analysis from the viewpoint of social and employment policy of the main scientific output of the various work packages that make up TLM.NET.

The first step was an analysis of the various position papers produced by the chairpersons of the working packages of the project. Then, we analysed the research papers written in the context of TLM.NET from the perspective of their contributions to several policy themes. In addition, the main policy documents at the international and EU-level were studied and analysed¹¹.

Although no specific set of evaluation and/or analytical criteria was developed ex ante, the evaluation and analysis of the output of TLM.NET took place on the basis of an integrative overview of key terms in this context (see Table 3). One needs to keep in mind that the list of key terms must be seen against the background of the TLM-approach being principally a dynamic one. That is, workers' careers have to be assessed over the whole life course. A second remark is that social risk management by the state and individual firms does not exclusively consist of labour market policy, but also contains important elements of budget policy, wage policy, social security policy, tax policy, gender policy, working time policy and health policy. Thus, in principle TLM is a flexible, but at the same time an integrative concept as well.

Table 3: Overview of key TLM terms

Actors:	Social Risk Management:	Most important transitions during the life course:
Individuals/workers: Women, youth, older workers, low-skilled workers	Life-long learning Social savings Personal savings Extending no. of active years	Transitions within employment Transitions between education/training and the lm

¹¹ Most important in this respect were:

- Various Employment in Europe reports, European Commission, Directorate General for Employment and Social Affairs
- Various EU Joint Employment Reports and National Action Plans (NAPs)
- Various OECD Employment Outlook reports
- European Commission (2003; 2004; 2004b)
- EU Broad Employment Guidelines
- EU Broad Economic Guidelines

Families	Child care provisions	
State: EU, national and regional levels	Active labour market policies (ALMP)	Transitions between employment and unemployment
Social partners	Employment protection laws (EPL)	Transitions between retirement/disability and the lm
	(Un)employment insurance (U/EI)	Transitions between household activities and employment
	Public/private employment service (PES)	
Firms	Vocational training	
	Job quality	
	Child care provisions	
	(Early) retirement provisions	

4. The Policy Context: The European Employment Strategy and the Lisbon Targets

The EES was established in November 1997 in Luxemburg and is based on a number of broad employment guidelines for all parties concerned (member states, social partners, NGO's). In 2000 the EES was subjected to a comprehensive evaluation, leading to a set of modified guidelines in July 2003¹². The EES is specified in the Lisbon Strategy aimed at making the European Union the most competitive and dynamic knowledge-based economy in the world, capable of combining sustainable economic growth with more and better jobs as well social cohesion. Also relevant in this context are the EU's broad economic policy guidelines and its social policy. These need to be consistent with the EES. The broad economic policy guidelines require member states to maintain sound public finances and macroeconomic stability, whereas the main aims of European social policy are the promotion of equal opportunity and social cohesion in the member states. The employment guidelines consist of three general and ten more specific guidelines (see Box 3).

Box 3: Broad employment guidelines EES

General:

- Full employment
- Improving quality and productivity at work
- Strengthening social cohesion and inclusion

Specific:

- Active and preventive measures for the unemployed and inactive
- Job creation and entrepreneurship
- Address change and promote adaptability and mobility in the labour market
- Promote development of human capital and life-long learning
- Increase labour supply and promote active ageing
- Gender equality
- Promote the integration of and combat the discrimination against people at a disadvantage in the labour market
- Make work pay through incentives to enhance work attractiveness
- Transform undeclared work into regular employment
- Address regional employment disparities

¹² Council Decision of 22 July 2000 on guidelines for the employment policies of the Member States (2003/578/EC).

In terms of employment the Lisbon Strategy objectives imply the following more specific targets (see Box 4)¹³.

Box 4: Lisbon-strategy targets/objectives

The Lisbon objectives in terms of employment, as expressed in the European Employment Strategy, cover the three overarching objectives of full employment, improving quality and productivity at work, and strengthening social cohesion. This means in particular:

- An overall employment rate of 70% in 2010 (67% in 2005)
- A female employment rate of 60% in 2010 (57% in 2005)
- An employment rate for older workers (aged 55-64) in 2010 of 50%
- An increase by 2010 of five years in the average age at which people leave the labour market
- Availability of childcare by 2010 for 90% of children between 3 years old and compulsory school age, and 33% of children under 3 years of age

For Member States, four priority areas were identified:

- Attracting more people in employment
- Increasing the adaptability of workers and enterprises
- Investing in human capital and making life-long learning a reality
- Improving the implementation of reforms through better governance

In the context of this policy analysis we will limit ourselves to the actual state of affairs with respect to the Lisbon Strategy, the EES and the Social Agenda of the European Commission. This will give the reader a quick point of reference when reading chapter 5 of this document, containing the main results of TLM.NET research.

At the moment the Lisbon Strategy is at its half-way point in terms of the time horizon envisaged. Although some important progress has been made by the member states in realising the commonly agreed targets, there are serious worries and doubts about the likelihood of timely realisation. Therefore, the European Commission has proposed to adjust both the Lisbon Strategy and the Social Agenda 2000-2010. The direction of change of the new proposals is based on several evaluative expert reports¹⁴ and culminated in several

¹³ Commission Staff Working Document, in support of the report from the Commission to the Spring European Council, 22-23 March 2005, on the Lisbon Strategy of economic, social and environmental renewal Brussels, 28.1.2005, SEC(2005)160.

¹⁴ European Commission (2003; 2004; 2004b)

official documents, containing the new social agenda 2005-2010 of the European Commission and the mid-term review of the Lisbon Strategy¹⁵.

First of all, what can we say at this point in time (Spring 2005) about the performance of the Lisbon-targets since 2000 from the employment point of view?

- The overall employment rate has increased between 1999 and 2003 from 62.5% to 64% for the EU15, and from 61.9% to 63% for the EU25. At this stage, more than 22 million jobs would have to be created in the EU to meet the overall target. This requires an annual growth of GDP of 1.5% (average growth rate 2000-2003: 0.7%).
- Between 1999 and 2003 the employment rate of women has risen by 3.2% to 56.1% (EU15; interim target: 57%).
- For older workers the employment rate increased by 4.6% to 41.7% between 1999 and 2003 (EU15).

So, in a quantitative sense much still remains to be done in the coming years (See also Box 5 below). More specifically, and in addition to the realisation of the employment targets, it should be noted that:

- There has been an increase of the average age of exit from the labour force from 60.8 years in 2002 to 61.4 years in 2003 for the EU15 (EU25: from 60.4 to 61.0);
- Childcare provision is developing in a positive direction, but care for children under 3 years of age is still deficient;
- Gender gaps remain, but are slowly diminishing;
- More countries are introducing making work pay policies by jointly addressing taxes and social benefits (Belgium, France, Denmark, Germany, The Netherlands, Sweden, The UK and Spain). Nevertheless, the removal of unemployment traps remains a problem;
- Part-time employment as a proportion of total employment has increased moderately to 18.6% for the EU 15 and to 17.1% for the EU25;

¹⁵ - Communication from the Commission on the Social Agenda, Brussel, 9.2.2005, COM(2005) 33 final;
- Communication to the Spring European Council Working together for growth and jobs. A new start for the Lisbon Strategy, Brussels, 02.02.2005, COM (2005) 24;
- Commission Staff Working Document in support of the report from the Commission to the Spring European Council, 22-23 March 2005, on the Lisbon Strategy of economic, social and environmental renewal, Brussels, 28.1.2005, SEC(2005)160.

- Less than a third of those who were temporary employees in 2000 in Belgium, Germany, Ireland, Italy, Spain, France, Greece and Finland were in permanent jobs in 2001 (EU15);
- Public investment in education and training has risen only slightly and varies from 8.5% of GDP in Denmark to 3.9% in Greece;
- The completion rate of upper-secondary-level education for 22-year olds was 76.6% on average for the EU in 2003 (target 2010: 85%);
- Participation in life-long learning increased between 2001 and 2003 from 7.9 to 9.3% of the adult labour force (target 2010: 12.5%).

These results prompted the European Commission to adopt a number of modifications of the Lisbon Strategy for the period 2005-2010, based on a ‘renewed drive and focus on fewer, achievable objectives’. The European Commission will in this respect shortly implement a concrete action programme for the EU, focused on a) making Europe a more attractive place to invest and work, b) promoting knowledge and innovation for growth and, c) creating 6 million new and better jobs by, among other things, boosting the GDP growth rate to 3% by 2010. Founding the desirable change on a new intergenerational approach to be able to meet the demographic challenge in the EU is seen as an important condition for success in this perspective. In addition, the remaining barriers in the European labour market have to be removed, such as obstacles to labour mobility arising from occupational pensions.

In sum, The European Commission wants to boost both employment and productivity in the coming five years by a rationalisation of economic policy coordination at the EU-level based on the following four priorities proposed by the Employment Taskforce chaired by Wim Kok:

- Increasing the adaptability of workers and enterprises;
- Attracting more people to the labour market;
- Investing more and more effectively in human capital;
- Ensuring effective implementation of reforms through better governance.

The instruments that the Commission itself will use to implement its policy intentions are: the open method of coordination (OMC), legislation, social dialogue and financial instruments (ESF).

Box 5: European evidence on labour market transitions

The annual *Employment in Europe* Reports of the European Commission contain statistical information about labour market trends and prospects. While we cannot summarize all relevant data here, it will be illuminating to review some of the trends that concern labour market transitions in particular¹⁶.

In the 2002 report, the Commission for the first time paid extensive attention to labour market transitions. EU GDP contracted in 2001 after years of steady growth, followed by a slowdown of employment growth from 1.5% to 1.0%.

Analysing transitions by different statuses (employment status, working time status, contract status, access to training, and objective job quality) over time between 1995 and 1998 (still a period of steady employment growth) as well as by job history, the report presents a number of relevant facts:

- First, there is evidence that workers with temporary contracts are more vulnerable than workers with permanent contracts. They more often leave the labour market altogether.
- Also, those who were unemployed or inactive in the past, have fewer chances to move back into the labour market than the recently employed.
- Men in part-time jobs experience a greater unemployment risk than men in full-time jobs.
- Part-time working women (less than 15 hours a week) run a significantly higher unemployment risk.
- Those without access to training at the workplace are considerably more likely to become unemployed.
- The quality of work correlates positively with labour market participation for all subgroups.

How do these findings compare with the evidence after the turn of the century, as recorded in the report on 2004?

Although the overall decline in employment growth came to a halt between 2002 and 2003, the unemployment rate increased in the EU from 8.8% in 2002 to 9.1% in 2003 (EU25). Economic growth for the enlarged EU25 declined from 1.1% in 2002 to 0.8% in 2003. Notwithstanding the more stable overall employment level, the employment level for young people, the low-skilled and the long-term unemployed fell somewhat. The sector most under pressure from the viewpoint of employment was manufacturing.

Concerning labour market transitions, the 2004 report focuses on temporary employment and on low-pay in Europe.

- A first conclusion, based on ECHP data covering the mid-nineties, is that there was an increase during that period in permanent employment from 42.3% of the labour force in 1995 to 45.4% in 2001. Also, temporary work increased from 6 to 6.9% of the labour force, a rise twice as fast as the growth of permanent employment. Put into perspective, this means that the proportion of workers with a permanent contract is decreasing over time while the proportion of those with fixed contracts is growing rapidly.
- The incidence of low pay in the EU is roughly 15% of the labour force and did not increase in the second half of the nineties, save in the Netherlands and in Germany between 1998-2000.
- Roughly one third of workers in temporary jobs find a permanent job after one year. On the other hand, after 6 years 16% of those in precarious contractual arrangements are still in that situation while 20% of them withdrew from the labour market altogether.

¹⁶ Based on: European Commission (2002) and European Commission (2004c)

- Roughly 44% of the low-paid succeed after seven years in increasing their pay above the low-pay threshold, but 30% are out of work by then.

In sum, certain categories of workers definitely have a structurally weaker labour market position than others. These are women, the low-skilled and younger workers. They do not only have a weaker position, but they also have fewer chances to improve their position relative to other groups. The 2004 report concludes that in principle there are many factors that can influence upward transitions into paid work and subsequently to better sustainable employment. These are: overall macroeconomic labour market performance, individual characteristics (gender, age, marital status, skills), labour market policies (training, public employment services, unemployment benefits), and demand/structural factors (industry, occupation, public versus private sector, firm size).

5. Major Research Findings and their Policy Implications

The TLM Thematic Network was subdivided into six more or less distinct research ‘work packages’ focusing on different aspects of the TLM *problématique*. In this Chapter we will review the major findings of the research conducted by members of the Network, paying particular attention to their possible policy implications, loosely following the topics covered by the different work packages as follows:

- Supporting labour market mobility and dynamics
- School-to-work transitions and life-long learning
- Activating labour market policies and escape routes from unemployment
- Work-life balance and new forms of transitions and combinations related to household activity
- Active retirement: New solutions to demographic needs and individual preferences
- Sustainable employment insurance

5.1 Supporting labour market mobility and dynamics

Under this heading we deal with a seemingly heterogeneous group of research topics: the trade-off between flexibility and security, the Danish case as a model of flexicurity, the situation of non-permanent workers and problems facing low-skilled/low-paid workers. What unites these apparently varied topics, however, is that they deal with a fundamental concern about the potential equity implications of a number of widely observed trends affecting the labour markets of advanced industrialized countries, which we have touched upon already above. We will briefly summarize them here. First, there is the so-called ‘knowledge economy’ which is causing important structural changes on European labour markets. The growing importance of knowledge as a productive factor has a number of potentially problematic implications for different categories of workers, creating new forms of social risks that must be confronted, as noted above. It leads, among other things, to a general rise in the required skill level of the labour force. This poses special problems for the least skilled in the labour force who also tend to be the least able to profit from (re-)training. More generally, it imposes new demands on the labour force as a whole in terms of the capacity and willingness to undergo periodic and possibly continuous re-training over the working career.

For a variety of reasons this may pose special challenges for older workers. At the same time, as the population continues to age the proportion of older workers is increasing as is, consequently, the demand for various non-traditional employment arrangements involving, or in anticipation of eventual retirement. The demand for non-traditional (i.e., part-time and/or non-permanent) employment arrangements has also risen rapidly as a result of the growth, in the course of the past decades, of the rate of labour force participation of women of childbearing age. Finally, the growing competitive demands and restructuring that are associated with so-called ‘globalization’ have made various forms of ‘flexible’ employment more attractive to employers as well.

As a result of all these converging trends, the standard full-time, permanently employed breadwinner model is becoming less and less common, as is the standard education-work-retirement sequence. These ‘standard’ models are gradually being replaced by a plethora of various employment arrangements and labour market statuses and combinations thereof. This means, *inter alia*, that the many possible *transitions* between these different arrangements and statuses carry with them a whole new set of possible social risks. Dealing with these new risks, in turn, poses a major challenge to the traditional social protection apparatus which was primarily designed to cope with the risks associated with the ‘standard’ employment and career model.

These new challenges raise anew the old issue of the possible trade-off between social objectives (social protection) and economic goals (efficiency). The second feature that ties the work described in this section together, as well as to the TLM perspective, is the shared interest in identifying ways in which it is possible to *avoid* the seeming inescapability of the social protection/efficiency trade-off, policies and institutional innovations that might even enable social protection to partly *underwrite* efficiency and flexibility in the labour market, in short, forms of ‘flexicurity’. This brings us, of course, right to the heart of the major contemporary policy debates. The notion of ‘flexicurity’ expresses much of the shared ambition of the TLM perspective and the Lisbon strategy. At bottom it represents a hypothesis and a hope that there is *not necessarily* an inescapable one-to-one trade-off between flexibility and security. At its most ambitious, ‘flexicurity’ refers to the idea that at least *some* forms of social protection, and *some* combinations of judiciously designed policies and programs may well be able to turn the relationship between flexibility and security into one of mutual reinforcement.

5.1.1 Welfare regimes and flexicurity

Some of our research provides provisional reasons for caution as well as optimism. While there is evidence that in the so-called ‘liberal’ regimes, which provide relatively low levels of social protection, labour markets are indeed more flexible than in other regimes (see also Ziguras et al. 2004) - which appears to support the neoclassical idea of an inescapable trade-off between flexibility and security - there is also some evidence to suggest that the seemingly *most* socially protective ‘social democratic’ regimes manage to generate *almost* as much labour market flexibility as the liberal ones, without significant apparent welfare loss as compared to the latter (Muffels and Luijkx 2004).

Muffels and Luijkx analysed ECHP-data covering the 1990s on job mobility and employment transition patterns across 12 European welfare states. They found widely diverging mobility and employment security patterns across countries and regimes. One important conclusion is that the ongoing trends noted above do not necessarily cause a convergence into the direction of a wholesale shift of the balance between a flexible labour market and employment security in favour of flexibility. The second important conclusion is that the ability to *combine* flexibility with security runs across welfare state regime types in a wholly unexpected manner. It turns out that *both* social democratic regimes *and* liberal regimes perform relatively successfully with respect to maintaining a balance between flexibility and security. Moreover, in terms of overall performance outcomes the two regime types appear to be less different from each other than from the other welfare state types (‘Continental’ and ‘Mediterranean’). Thus, liberal labour market regimes such as the UK and Ireland perform well with respect to flexibility and efficiency, as perhaps expected, but they also perform relatively well regarding maintaining employment security in terms of keeping unemployment spells relatively short. On the other hand, they perform less well in keeping income security at satisfactory levels. Social democratic regimes such as Denmark, Austria and The Netherlands, on the other hand, perform better with respect to work and income security, but somewhat less well with respect to efficiency. It is the southern, ‘Mediterranean’ regimes, Spain, Italy and Greece, that appear to perform worst *both* in terms of flexibility *and* with respect to work security. The ‘Continental’ (Germany, Belgium, France, Luxemburg) countries perform somewhere in between. It is worth noting in this context that one major feature that distinguishes the latter two regime types is their strong tradition of job and dismissal

protection, which is often cited as a major source of rigidity in their labour markets. We will return to this issue below.

5.1.2 Denmark: The new flexicurity model?

Denmark is currently held up as perhaps the most successful example of a country pursuing ‘flexicurity’ through something like an integrated ‘transitional labour market’ approach. The Danish unemployment rate, and particularly long-term unemployment, has been brought down dramatically since the early 1990s while the Danish labour market is characterized by an extraordinary amount of mobility (Madsen 2004). These successes have been achieved without draconian reductions of the quite generous Danish system of unemployment insurance and other social protection programs. Interestingly, the Danish ‘model’ appears to be, if anything, a *hybrid* of the ‘liberal’ and the ‘social democratic’ approach. On one hand, statutory job protection is virtually non-existent in Denmark. As a result, employers can hire and fire personnel almost at will, but in any case much more easily than in any other European country except perhaps Great Britain. Interestingly, this feature appears to have turned Danish employers into staunch supporters of the system as a whole. This is all the more remarkable because, on the other hand, the earnings replacement ratios of the unemployment insurance system and the maximum benefit periods are quite generous even by Nordic social-democratic standards, although they are combined with quite strict and apparently vigorously enforced willingness-to-work requirements. One particular aspect of this policy is that, ever since a major reform in 1994, participation in ‘active’ labour market policies (training, subsidized jobs) does *not* generate new claims to unemployment insurance, a feature which appears to have successfully cured the kind of ‘revolving door’ syndrome from which many hard-to-employ active labour market program clients in Sweden are said to suffer. Perhaps even more important, Denmark has a system of skilled-trades colleges of long and successful standing which continues to function well as a provider of training in new skills and skill updating courses for a highly mobile and skilled workforce and which seems particularly well-adapted to the requirements of the modern knowledge economy. In effect, in tandem with the strong Danish emphasis on active labour market policies, this system of regular skills upgrading and high labour market mobility effectively appears to function as the kind of employability-insurance system envisaged by those advocating the replacement of the traditional, ‘passive’ unemployment insurance systems with ‘activating’ employment insurance (see also section 5.6.2 below).

At the same time, one should guard against overly enthusiastic celebrations of the current Danish success story as a model for other countries. For all its apparent coherence and internal logic, the Danish ‘model’ was never based on any deliberate grand policy design or long-term strategy. It was, if anything, the somewhat lucky outcome of a confluence of developments and circumstances that are in many respects peculiar to Denmark and may not be easily transferred to countries with different institutions and traditions. Moreover, it is as well to remember that the Danish ‘system’ has undergone important changes in recent years and that the ‘model’ as we know it today only took its present institutional shape in the 1990s as a result of far-reaching labour market and welfare reforms, after a period of alarmingly high unemployment in the 1980s. As has been the case elsewhere (see also section 5.3 below), the Danish reforms largely involved a shift from the mainly passive welfare state arrangements of the 1980s to activation policies with a very strong accent on education and training in the 1990s and to somewhat more restrictive welfare and labour market policies, introducing more elements of workfare into the system and reducing unemployment compensation entitlements (Larsen 2004; Madsen 2004). Note also that these reforms and the subsequent success in bringing down (long-term) unemployment rates have occurred during a period characterized by very favourable macro-economic conditions with strong growth in employment. It still remains to be seen how well the current Danish system, with its emphasis on costly ‘active’ labour market policies, will fare under less favourable economic conditions.

As already noted, one crucial feature of the Danish system is the absence of any significant statutory job protection. In fact, historically Danish employers have always had very low hiring and firing costs. It was against this backdrop of lack of job protection that the Danish government, under strong pressure from corporatist interest groups, developed its quite generous social benefit systems and active labour market policies from the 1960s onwards. As a result, the Danish model has become quite costly. Thus, in 2000 Denmark spent 4.63% of its GDP on (active *and* passive) labour market policies, much in excess of the amount spent by the traditional champion of active labour market policy, Sweden (2.74%), not to mention the ‘liberal’ UK (only 0.8% ; see Madsen 2004, p.12).

Furthermore, as already noted, there is no doubt that a large part of the explanation of the development of the current Danish ‘model’ has to do with peculiarly Danish traditions and institutions. For one thing, Denmark has an exceptionally strong tradition of ‘neocorporatist’ cooperation between the social partners, based on a long history of constructive and close

relations between strong unions and employers organizations. Perhaps even more important, the Danish economy is quite unusual in one highly salient respect: it is dominated by a very large number of small and medium-sized businesses and has an extraordinarily low proportion of large firms. Unlike an economy such as the Swedish one, which is dominated by very large firms and a correspondingly large and centralized union movement, the Danish economy is one in which numerical flexibility of the labour force is, for most firms, a matter of survival. It is only within the context of these peculiar characteristics of the Danish industrial relations system and its economy that one can understand the Danish employers' support for the country's still extremely generous social protection and welfare institutions as a clear *quid pro quo* for the absence of statutory job and dismissal protection. It is not easy to envisage how such a clear-sighted, national-level arrangement could emerge in countries with more adversary and/or fragmented industrial relations traditions.

Yet, however important it may be to keep all these qualifications in mind, the fact remains that Denmark's current success story does show that it is *possible* to combine generous levels of social protection with high levels of labour market flexibility, that is, that 'flexicurity' is not just an academic pipedream but a practically feasible policy goal, *given* certain specific favourable conditions. At the very least, this means that academic research and policy-making debates should henceforth focus on what exactly these necessary conditions consist of and to what extent they may be successfully transplanted to, or imitated in other national contexts. Thus, the Danish case is definitely becoming the reference point or even the benchmark for reforms in other European employment regimes aimed at introducing or reinforcing transitional labour market arrangements such as combinations of leave schemes, provisions for training and education aimed at improving the employability of workers, job mobility and job rotation provisions, etc. In view of this, we conclude by reproducing the concise and informative overview of the Danish system of flexicurity provided by Madsen (2004).

Table 4: The Danish system of flexicurity

	Basic traits of the Danish system of flexicurity	Specific developments in the 1990s
Political environment	<ul style="list-style-type: none"> • Strong corporatist structures • Implicit social contract concerning balance between security and flexibility 	<ul style="list-style-type: none"> • Broad political support for reforms of labour market policies • Acceptance by social partners of need for wage restraint • New government headed by the Social Democrats
Macroeconomic environment	<ul style="list-style-type: none"> • Changing international economic conditions • Active fiscal policy, but constrained by external balance 	<ul style="list-style-type: none"> • Strong internal demand • Favourable external balance • Lower level of international inflation
Employment situation	<ul style="list-style-type: none"> • High employment rate (75%) • Shifting levels of open unemployment • Rising share of persons receiving transfer income 	<ul style="list-style-type: none"> • Significant reduction in both open and gross unemployment • Reduction in structural unemployment
Worker mobility (external numerical flexibility)	<ul style="list-style-type: none"> • High by international standards 	<ul style="list-style-type: none"> • High by international standards
Employment protection	<ul style="list-style-type: none"> • Weak 	<ul style="list-style-type: none"> • Weak
Unemployment benefits	<ul style="list-style-type: none"> • Significant increase in compensation rate with reform in the late 1960s • Cash benefits for non-insured employed 	<ul style="list-style-type: none"> • Slow decline in compensation rate, but still high by international standards • Reduction in duration, especially for passive benefits
Active labour market policy	<ul style="list-style-type: none"> • High expenditures on LMP in general • Incremental policy adjustments since 1979 	<ul style="list-style-type: none"> • Decentralised • Individualised • Right and duty to early activation

Source: Madsen 2004

5.1.3 'Precarious' and low-skill/low-paid workers

Several TLM papers document the rapid growth across the EU of 'precarious' employment, that is, jobs that are on time-limited contracts and casual jobs. A major concern is whether these kinds of jobs create a second-class segment in the labour market from which it is difficult to escape or serve as possible stepping-stones to more permanent employment (Aho 2004, Debels 2004). Temporary jobs are widely used in case of first-time labour market entry. Hence particularly women and young workers are prone to occupy such jobs. In their international comparison, Muffels and Luijkx explicitly look at transition patterns from such jobs ('flexjobs') to permanent jobs. In this respect as well, they find that the countries with the strictest job protection regimes, the Southern European countries, performs worst. They also show that education, work experience and unemployment history play an important role in upward as well as downward mobility in all countries: perhaps not surprisingly, the higher the human capital endowments, the more likely is a move upwards into better jobs and the less likely is a move downwards into less stable or lower-level jobs. Relatively low-skilled workers are more prone to downward moves in this respect (Muffels and Luijkx 2004).

These findings are confirmed by several country-specific studies that document significant differences between the various welfare and employment systems in the EU. Taken together these papers tend to show that whether non-permanent jobs serve as stepping-stones to permanent ones or as a new form of permanent segmentation depends on the institutional context, in particular the degree to which existing permanent jobs are subject to strong job protection. Such protection presumably reduces possible flows into and out of such jobs and hence puts limits on the degree to which non-permanent jobs *can* serve as stepping-stones, although activating policy interventions meant to move workers from temporary to permanent jobs do seem to have some positive effect there (Verdú et al. 2004). In Spain and Italy the rate of involuntary temporary workers is very high,¹⁷ although temporary workers are still more likely than the unemployed to find a permanent job in the end (Hernanz et al. 2004). A complicating factor in Spain and Italy is that first-time job seekers are not entitled to legal social protection and are therefore dependent on the family as a safety-net. The likelihood of young workers in both countries of finding a first permanent job depends strongly on previous educational success. This is even more the case for women entering the labour market than for men (Verdú et al. 2004). On the other hand, in Finland, a country with relatively light job

¹⁷ In Spain and Italy respectively in 2002 41% and 70% of temporary unemployment was involuntary, whereas the EU-average was 34% (Hernanz et al. 2004).

protection, it was found that temporary or short-term jobs do tend to lead to upward career mobility, especially when supported by active labour market policy programs (Aho 2004). Finally, a study on the value-added logistics industry in the Netherlands confirms the crucial importance of training for upward mobility of low-skilled non-permanent workers, a process which depends greatly on the character of the firms employing them (Van Velzen 2004).

The prospect of potential segmentation and marginalization is even more serious, however, and more widespread across different social protection regimes, for workers with low skill levels. As the demand for higher skill levels increases and as average education and skill levels rise, the position of the least-skilled worker is likely to become more precarious. As Clayton notes, there may be a serious mismatch of skills building up in European labour markets with severe marginalizing consequences for the many low-skilled (Clayton 2004). Those with little in the way of formal education and credentials are in danger of remaining stuck in low-paid, low-skilled jobs from the moment they enter the work force. In France, for example, despite educational expansion in the recent past, there are still some 4 million (or 8% of the active labour force) blue and white collar workers employed in low-skilled jobs. On the whole, for them, chances for upward mobility have decreased. There appears to be no single mobility pattern for these kinds of workers in France. But research so far indicates that there is some mobility between low-skilled and more highly skilled jobs and that the chances of moving to a better job are strongly influenced by initial level of training and credentials. In addition, chances to escape unskilled jobs depend on gender, age, and working in the manufacturing or service sectors (Coutrot and Kieffer 2004). On the basis of their finding with respect to the importance of previous training experience, Coutrot and Kieffer even go so far as to plead for a degree of over-education of young people so as to safeguard their later chances for upward mobility and to prevent their marginalization (Coutrot and Kieffer 2004).

At the same time, comparative work suggests that the degree to which chances of upward mobility from low-skilled jobs are blocked and/or influenced by initial levels of education varies considerably between countries as well, apparently depending on the significance of vocational degrees for the nature of first jobs and possible subsequent 'lock-in' (Coutrot and Kieffer 2004). At the firm-level, too, there are significant differences between the chances of low-skilled workers to move to better-paying jobs depending on characteristics of the firms and sectors (Bolvig 2004). There are good reasons to believe, as well, that for a significant proportion of low-paid/low-skilled workers psychological, social and financial impediments

conspire to prevent them from taking up further training to increase their skills and employability (see more on this issue in section 5.2 below). A variety of initiatives, such as workplace guidance, is being taken by various (combinations of) social partners and authorities in different countries to try and overcome these barriers (Clayton 2004; Lassen 2004). Preliminary comparative evidence suggests that these initiatives are promising only where they involve intensive, long-term counselling organized and administered at the local levels by close partnerships of employers and local unions and authorities (Clayton 2004).

Conclusion

To sum up, then, a major concern in the various studies is whether temporary jobs and/or low skills are in danger of creating a second-class segment in the labour market from which it is difficult to escape. With respect to temporary jobs, the answer depends on the institutional context, in particular the degree to which existing permanent jobs are subject to strong job protection which reduces possible flows into and out of such jobs and hence puts limits on the degree to which non-permanent jobs *can* serve as stepping-stones, as well as on activating policy interventions meant to move workers from temporary to permanent jobs. Education and training play an important role in helping individuals to move to permanent jobs as well as in reducing the danger of marginalization of low-skilled workers, but this effect, too, depends to some extent on the institutional setting. In addition, welfare state regimes have a considerable effect on the fate of precarious (especially temporary) and low-skilled workers in terms of their odds of falling below the poverty line (Debels 2004). There are some indications, as well, that employers' reluctance to invest in temporary and/or low-skilled workers' human capital constitutes a serious obstacle to those workers' mobility into more permanent higher-quality employment. These findings seem to reinforce our results concerning the differences between 'welfare regimes' in their success or failure to promote 'flexicurity' and the findings concerning the current successes of the Danish approach in particular.

As the example of the successful Danish Model shows, the real challenge for the EU member states is to define and subsequently realise the optimal balance between security and flexibility, especially for these most vulnerable categories of workers. For the Southern and Continental member states this will in general imply less social security in the form of job

protection and more flexibility and for the Anglo-Saxon-like member states this will mean more (earnings) security at the possible cost of slightly less flexibility.

5.2 School-to-work transitions and life-long learning

As already suggested by the findings discussed in the previous section, the subject of education and training (ET) is crucial in the framework of transitional labour markets. It not only refers directly to one of the most important transitions in a person's life (from school to work) but also to the employability of adult workers during the whole of their occupational career. From the viewpoint of the demand side ET is increasingly crucial as well. The dramatic increase in the level and kind of skills demanded by the knowledge-based economy seems to require permanent adaptation of the workforce. In this section we will pay attention to the following three related subjects: school-to-work transitions, demand for (new) skills/training, and life-long learning. All three concern education and training related transitions (ETTs), that is, transitions into (better) employment, or the reduction of the probability of transitions out of employment or to lower-quality jobs.

5.2.1 School-to-work transitions

Not surprisingly, most of the available empirical evidence on the effect of education concerns younger workers. Recent European data show that in the EU-14 (excluding Germany), the average age of completing initial education ranges from 18-24 years and that the average time between leaving ET and starting the first job ranges from 5 to 35 months. With respect to the quality of jobs, the available data show that the proportion of precarious work among younger workers is seldom lower than 15% and even reaches figures ranging from 40 to 70% in some countries in the first years following the transition from school. Finally, there remains a significant proportion of young people who do not successfully settle in the labour market: about two fifths of young people experienced a job search period of more than one year, 19% was searching for up to two years and 26% on average even more than two years (Lassnigg 2004a).

The following points stand out from the research with respect to initial transitions at the European level (Lassnigg 2004a):

- The varying length and structure of transition periods among different countries, with some countries having substantial proportions of young people taking quite long before settling into employment, or not successfully settling into employment at all;
- If jobs are found, increasing proportions of young people work under non-standard employment contracts (fixed-term and/or part-time), with partially negative consequences for their further careers;
- Young women are particularly disadvantaged in these transitions, because they more often find themselves in part-time jobs, or are expected to leave their employment for child-rearing at some point.

The considerable differences in the role of education in affecting the school-to-work transition between EU countries is confirmed by EHCP data. They show, for instance, that the performance of Denmark and Spain regarding transitions from education to employment has significantly improved in the period 1994-2001 when compared to countries such as the UK, Germany and France (Brzinsky-Fay 2004). A crucial variable in this respect is the degree to which and how the educational system is linked to the labour market, and even directly to firms. Burzlaff provides some in-depth information on this linkage. She analysed and evaluated a number of school-firm partnerships in the Nord – Pas de Calais-region in France and arrived at the following interesting conclusions. First of all, these partnerships are not necessarily efficient in all cases, because of difficulties partners encounter in remaining motivated in the long run and also because of the fact that the structure of financing is not often adjusted to the needs of the main participants. Furthermore, local arrangements seem to depend very much on individuals' involvement and good will. Finally, because of cultural and regional differences good practices can be difficult to duplicate successfully in other contexts (Burzlaff 2004). One well-documented case of relative success in moving workers from school into high-quality permanent jobs which is attributed to close linkage with employers is the German apprenticeship system. Equally well-documented are the problems faced by young entrants in countries with relatively high minimum wages and strong job protection (France, Italy, Spain). Yet our evidence shows that even in the latter the roles of (level of) education in promoting successful labour market entry is crucial, with some interesting inter-country and even inter-gender differences (Verdú et al. 2004). There is also some work suggesting the importance of *intermediaries* of various sorts (signalling, brokering, training, subsidy providing, benefit providing) in helping young school-leavers find jobs (Van Trier et al. 2004). In sum, successful local school-firm partnerships and good brokerage show some

promise of facilitating the school-to-work transition even in institutionally otherwise difficult conditions.

5.2.2 The demand for (new) skills/training

According to a now massive literature, the new, knowledge-based economy is producing a dramatic increase in the level and kind of skills demanded. Yet, systems designed to monitor, anticipate and forecast the nature and quantities of the qualifications and skills are still in their infancy (Lassnigg 2004b). Educators and education policy makers have made attempts to reform curricula so as to better serve the needs of the ‘new’ economy. In particular, there has been a shift towards general analytical and problem-solving competencies instead of specific job-related skills, on the theory that employability in the knowledge-based economy is determined primarily by the ability to *acquire* new skills related to ever-changing technology throughout one’s working life. Thus, somewhat parallel to the shift from employment to ‘employability,’ the emphasis in the educational domain seems to be one from training to ‘trainability.’ There is some preliminary evidence that may support this trend. *General* education appears to pay off significantly better in the labour market than more specific vocational training. On the basis of data collected for the Belgian Household Panel (PSBH) Karasiotou found that education not only significantly improves the life-time income of individuals but also significantly strengthened their position in the labour market. The gains were higher in those cases where initial general education was continued at the secondary school level. On the basis of these findings, she proposes to postpone more specifically technical vocational training until after the mandatory school period or even until after the start of one’s working career (Karasiotou 2004). This research is to a large extent in line with recent developments in higher education. At this level, under the influence of the demands of the knowledge-based economy, the importance of developing more general core competences or key qualifications is increasingly underlined. Ideally, these competences will have to be a balanced equilibrium between general, reflexive and occupation-specific competences as graduates will have to face and to cope with continuous changes in their professional environments (Allen and De Vries 2004).

5.2.3 Life-long learning

Depending on the viewpoint one takes, there are several reasons why life-long learning (LLL) is gaining in importance. For the employer LLL increases in importance as intensifying

economic competition and rapid technological developments require an increasingly flexible and adequately skilled workforce. The employee on the other hand, increasingly needs to maintain his/her employability in a context wherein knowledge and expertise depreciate more rapidly. Finally, as already suggested in the previous section of this chapter, LLL is needed to prevent large groups of workers from becoming socially dependent or becoming marginalized. Younger and older workers are particularly vulnerable, as are immigrants, women and those working in low-skilled and unstable positions. TLM.NET-research has paid attention to the various aspects mentioned, mostly in the form of country-based studies.

Perez carried out a study in France trying to answer the question whether LLL can reduce insecurity for workers with unstable or chaotic work careers (Perez 2004). Thus, she focused on the hard-core of unstably employed or unemployed workers. Based on data from several surveys she concludes that there exists a sort of a hierarchy of workers in France. That is to say, unstable workers have fewer opportunities than stable employees to take part in training activities. In addition, unstable workers experience less favourable work careers than stable workers. This is caused by the fact that stable workers are less dependent on state-financed training courses as they are more likely to receive employer-financed training courses. Thus, training opportunities and qualities appear to be highly unevenly distributed between different groups of workers. Despite several proposals in France to counteract these tendencies, for instance by introducing social drawing right for professional training (the Supiot report) and new legislation with regard to the *Droit individuel à la formation* in 2004, there has not been much progress in this regard so far. Perez' results of course help to explain the aforementioned finding by Karasiotou that after-school education is more successful for those with higher initial educational levels (Karasiotou 2004).

On the other hand, when we compare workers with vocational training intended to compensate for skill obsolescence with workers without any vocational training at all, Fernandes et al. show that leaving unemployment situations for jobs in Portugal is significantly easier for the former. Also, the unemployment spells are shorter for workers with training experiences. Such so-called 'chimney effects' need to be counteracted, the authors argue, by deliberate labour market and educational policies for workers with the lowest qualifications on the labour market (Fernandes et al. 2004).

Similarly, O'Connell's study of Ireland concludes that vocational training is highly selective: those with higher educational attainment receive more training than the low-skilled, and the employed receive more training than the unemployed, who in turn receive more training than those who are not economically active. Using 2003-data from the Irish Survey of Employees' Attitudes and Experiences of the Workplace, he shows for instance that men are more likely to participate in training than women, that workers aged 25-39 are most likely to receive training, and that training incidence declines substantially among those aged 55 and over. Moreover, training is also strongly related to occupational class: 63% of higher professionals received training, compared to 35% of semi-skilled manual workers, and 28% of unskilled manual workers. Finally, full-time workers also receive more training than part-timers and those who have been in a job for more than a year are receiving more training than those who have less than a year of job tenure. As O'Connell sums it up, "[t]here is a familiar pattern in participation in training: older workers receive less training, more highly skilled workers receive more training, those in large organisations and in the public sector receive more training" (O'Connell 2004, p. 17). Training is also associated with workplace change, most obviously with the introduction of new technology, but it is also, intriguingly, positively related to participatory management practices (Ibid.).

Lassen et al. (2004) carried out a case study in the Danish ICT electronic equipment manufacturing sector and in particular evaluated the performance of the network-based Danish system of continued vocational training (CVT). This system of labour market education, called AMU, offers modularized training courses at low cost to the unemployed as well as the employed. Crucial in this regard is the intensive collaboration between a number of actors (social partners, ministry of labour, a.o.). The CVT-system was implemented in 1960. CVT seemed highly successful in the sector under study in continuously upgrading the skills of the industry's workforce. A strong point according to the researchers is that it builds a bridge between the employability approach and the more general LLL-approach.

Conclusion

Training issues are extremely important in the framework of TLMs because they not only equip workers for being able to earn their living in the labour market, but also support the demand side with a more flexible and deployable labour force. Perhaps the key finding of the research carried out by the members of the TLM network is that the distribution of training

episodes is heavily skewed towards the already most-skilled and towards younger rather than older workers. Presumably this pattern mainly reflects employers' judgments about the highest likely pay-off of their investments in their workers' human capital. The well-known finding that the more highly educated are more likely to move from unemployment to new employment is probably also at least in part explicable by the fact that employers expect better educated workers to be more easily trainable to enhance their productivity. Employers' preference for training younger rather than older workers, especially where 'new' ICT skills are concerned, is also well-known and readily understood in terms of the likely costs and benefits of human capital investments. Less attention so far has been paid to whether ICT might also contribute to easing some of the problems and bottlenecks in efforts to provide (older) workers with access to life-time learning opportunities by making the training instruments more flexible, adaptable and widely accessible (but see Gelderblom and De Koning 2004). Another relatively vulnerable group with respect to access to post-initial training, and hence to favourable career prospects, are flexible 'precarious' workers who, like older workers, may well be viewed as relatively unpromising candidates for serious investment in human capital by employers.

In short, there is a growing body of evidence identifying specific groups of workers who are in danger of becoming marginalized due to their relative lack of access to education and training facilities, just at a time when, as we have seen in the previous section, skill demands are becoming more exacting and low skill is becoming more and more of a handicap on the labour market. Moreover, there is no question that some significant part of the problem of gaining sufficient access to such training facilities is due to the fact that employers do not feel that investment in the training of these workers is likely to be profitable. Consequently, if systematic marginalization of these categories of workers is to be prevented, there undeniably is an important task here for government to provide to them ready access to training opportunities that are of high quality. At the same time, it must be recognized that the large literature on the effectiveness of public labour market training programs is not particularly encouraging.

But there are some glimmers of hope. One well-known finding from the evaluation literature on labour market training programs is that such programs *can* be effective under very special conditions that encourage extremely close collaboration between the educational institutions, all labour market actors and other authorities at the local level (Lassen et al. 2004). Similarly,

there is evidence that groups of workers who face particularly high barriers to participation in skill-enhancing adult training schemes because of financial, social and motivational impediments, can be helped by intensive, long-term counselling, *if* this is organized at the most local level possible by closely collaborating social partners and authorities (Clayton 2004). Furthermore, in several areas of labour market policy evaluation, recent evidence is accumulating to the effect that it is the *career* or *path* of consecutive labour market and employment statuses rather than any single given point in time that explains how and to what extent workers benefit from post-initial training and education. There are distinctive paths or careers of employment instability which differentiate not only workers who have ready access to training to upgrade their skills and employability from those who do not, but also those who are likely to *benefit*, in terms of future permanent employment opportunities, from such training from those who are not, not even after lengthier training spells.

Finally, as mentioned, skills mismatch, including *over*-education, has been an emerging issue in the literature about education and employment. There is some evidence to suggest that one major source of the problem resides in the educational system and/or individuals' educational choices within it. The resulting skills mismatches in subsequent employment do, to be sure, diminish somewhat with the accumulation of work experience, but current evidence suggests that this does not fully eliminate the initial problem (Allen and de Vries 2004). Consequently, policies with respect to education and life-long learning will have to focus to a considerable degree on school curricula and the mechanisms governing educational choice.

The transition countries, in particular the Visegrad countries, have their own peculiar skills mismatch problems to cope with as they are making the transition from industrial socialist to post-industrial capitalist economies. Starting with a relatively highly skilled work force, yet lacking some of the crucial skills for the 'new' economy, these countries face some very specific life-long-learning issues that they have started to address in various institutional ways (Tamás et al. 2004).

5.3 Activating labour market policies and escape routes from unemployment

In this section we focus on the second important labour market transition, which is the transition from unemployment to employment. More specifically, we will pay attention to the

changing nature of the unemployment risk, to mobility patterns between work, unemployment and inactivity, and to the impact of institutional reforms in ALMPs. ALMP is a consequence of the general shift over time from demand-oriented Keynesian socio-economic policies to supply-side-oriented policies and mainly implies a shift from passive social protection policies to activating policies. The unemployment risk as such has become more complicated by several developments, including the deteriorating earnings capacities of the low-skilled, the increase of single-parent (mostly mother) families, the growing use of early retirement by older workers, the increase of flexibility in terms of volume, functions, labour contracts and wages, and finally by the increasing individualization of preferences and behaviour. Policy makers have recently responded to these challenges by introducing policy measures intended to make work and transitions pay (e.g., activation of tax/benefits schemes into wage subsidies and vouchers), by stimulating a new balance between the rights and obligations of the unemployed and employers and by reorganizing centralized public employment services in the direction of more decentralized, integrated one-stop shops (De Lathouwer 2004a). A new policy mix consisting of financial incentives, motivation-oriented measures and administrative reforms seems to be emerging. Much of the new policy initiatives and proposals implies a fundamental rethinking of the proper relationship between individual and collective responsibility in the management of old and new social risks.

5.3.1 The shift to more activating policies

There has been an unmistakable trend in recent academic and policy-making discourse towards an increasing emphasis on ‘active’ and ‘activating’ labour market policy (e.g. Nekkers et al. 2004). Yet these terms can mean quite different things depending on the institutional context (Barbier 2004), even *within* the same country (Gazier and Zajdela 2004). In so-called ‘liberal’ or ‘residual’ welfare states (primarily the Anglo-Saxon countries), ‘activating’ reforms have mainly meant cutting back on benefit levels and durations of income support programs and a stronger emphasis on various ‘back to work’ incentives and sanctions (Van den Berg et al. 2004; Zигuras et al. 2004). In the more ‘universalistic’ and especially the ‘social democratic’ welfare states, “the concept of ‘activation’ is ... envisaged as the introduction of an increased and explicit linkage between, on the one hand, social protection and on the other hand, labour market participation” (Barbier 2004, p. 6). But these are ideal-typifications that should not obscure the considerable range of variation between countries, in almost all of which some *combination* of these two reform thrusts has been attempted in recent years (Barbier 2004). It should also be noted that in the transition countries, the

evolution towards implementing active labour market policies has been somewhat erratic and hesitant, hindered in part by limited resources and different policy priorities but also by the sheer enormity of the task, and the levels of unemployment involved (Zawadzki and Preisner 2004; Wojdylo and Zawadzki 2004).

Within the TLM.NET, reforms in two non-European Anglo-Saxon welfare states have been analysed as well. Van den Berg et al. describe the features and consequences of the replacement of unemployment insurance by so-called Employment Insurance which took place in Canada in 1996. The Canadian federal government's declared intention with this reform was to transform the still largely passive income support system into one with a much stronger emphasis on active labour market policies. However, the main components of the reform turned out to consist of tightening eligibility rules and reductions of benefit levels and periods, so as to stimulate labour market participation and to significantly reduce public expenditures at the same time. Although at this stage not much can be said yet about the efficacy of the policy changes, it is obvious that the Canadian unemployment benefits regime remains one of the more restrictive among the OECD-countries. The dominant underlying assumption is that overly generous unemployment benefits necessarily undermine labour market participation and flexibility. From the viewpoint of TLM the reforms may well end up facilitating certain labour market transitions to some extent, including temporary leaves for the sake of child care, but because this is being done in a much harsher environment than in the EU, the whole package hardly adds up to a conversion to labour market flexibilisation along the lines of TLM or the European Social Model (Van den Berg et al. 2004).

Ziguras et al. describe similar reforms in the Australian welfare state. It has undergone significant change in the course of the past two decades by the abolition of traditional forms of social protection as well as by increasing the individualization of risks. Positive effects have been the generation of substantial demand for high-skilled workers as well as for workers in low-skill service jobs. On the negative side there has also been a significant increase in under-employment and precarious jobs. At the same time, the Australian labour market does appear to be extremely dynamic in comparison to the European labour market. Each year 20% of the adult population makes a transition into, out of or within employment and/or other activities (study, caring). Part-time work plays an important role in these transitions as well. The comparable EU-figure is 16%, although, as we have seen, this covers a wide range of country averages. As the Australian welfare state combines low social

security with high mobility and flexibility some groups experience increased exclusionary risks, in particular those who have been retrenched within the last decade, those with less than 12 years of education, people with long-term health problems, migrants with poor English, parents with children under five years of age, women and indigenous people. Based on their analyses, Ziguras et al. plead for a number of complementary reforms consisting of a combination of mobility guarantees and education and training that is consistent with the TLM framework (Ziguras et al. 2004).

In contrast to the recent reforms in Canada and Australia, De Lathouwer (2004b) and Nekkers et al. (2004) analyse recent reforms in more universalistic European welfare regimes. Both focus on the possible significance of in-work benefits (IWBs). IWBs as a form of making work pay policies (MWP) fit in the specific Guideline eight of the Employment Guidelines (2003) mentioned above. IWBs imply a stronger integration of social, fiscal and employment policies and can take various practical forms such as complementary social benefits to work, reduction of social contributions and tax credits. As the Belgian case shows, all these policies have in common that they directly subsidize low-wage earners and thus presumably help to prevent possible poverty and unemployment traps.

IWBs are not exclusively applied in more universalistic welfare states, but the difference with liberal welfare states is that they are part of a system of much more generous income protection arrangements. In Belgium for instance, the introduction of more or less universal IWBs has also contributed to the raising of certain benefit levels. This costly dual strategy, which contrasts sharply with the Canadian and Australian approach, is seen in Belgium as an important priority. It is, however not without its own problems, as we shall see forthwith.

When considering the current trend towards ‘activation’ policies, the effect of *combinations* of policies, while often pointed to in policy debates, is rarely studied directly. The paper by De Lathouwer (2004b) addresses this issue for a combination of recently implemented ‘making work pay’ reforms in Belgium. Belgium is a particularly important and pressing case with respect to current efforts to introduce more ‘activating’ elements into the labour market policy repertoire. For some years now, Belgium has had one of the highest rates of long-term unemployment in Europe, while also having a higher-than-average overall unemployment rate. Traditionally, this has been blamed on Belgium’s allegedly excessively generous unemployment benefit and social assistance systems, which allow beneficiaries to draw

relatively high benefits for indefinite periods of time. Recently, Belgium has implemented a number of measures to try and overcome the resulting so-called ‘unemployment trap’. These reforms have included reducing the cost of employment of certain categories of workers by reducing the social contributions payable by employers who hire them, a variety of ‘making work pay’ measures, including reduction of social contributions paid by the employee, wage subsidies to low-paid employees (the ‘guaranteed income benefit’) and subsidies to unemployed full-time workers accepting part-time work, an income-tax credit scheme for low-paid workers, reducing the cost of childcare for low-income groups, and ‘activation’ measures such as a program to help the long-term unemployed re-acquire work experience through publicly funded temporary jobs mostly in the social services sphere.

So far, the evidence on the effectiveness of these measures is mixed. One obvious concern is that this drift towards subsidizing low-wage work effectively abandons the commitment to relatively high-quality employment underlying the traditional minimum-wage policies in continental Europe, merely moving from the former ‘dependency trap’ to a new ‘low-quality job trap’. But, in any case, while various in-work benefits appear to have had substantial employment effects in Anglo-Saxon countries, there are reasons to believe the Belgian versions will be less successful. Given the universalistic character of the Belgian welfare state, benefits tend to be universal rather than targeted or (household) means-tested, putting severe budgetary restrictions on feasible individual benefit levels, which must necessarily remain very modest indeed, even for the lowest-paid workers. Similarly, the inability to target these subsidies to the most needy families, as opposed to individuals, renders them fairly ineffective as instruments in the fight to reduce poverty. Thus, in the Belgian, and generally the continental European case, financial incentives alone are not likely to have a major impact on unemployment. Consequently, De Lathouwer argues that to improve the efficacy of such policies it is crucial to complement them with other active labour market measures. These should include, for instance, skill-upgrading programs, job-search enhancement policies and policies directed at improving the work-life balance by means of substantial care provisions and parental leave and flexible working time arrangements (De Lathouwer 2004b).

Along similar lines, Cazenave argues that efforts by the social partners in France to introduce elements of more ‘activating’ incentives into the system of unemployment compensation (the so-called *Plan d’Aide au Retour à l’Emploi* or PARE) are likely to have relatively modest effects because of a general reluctance to introduce Anglo-Saxon-style ‘sticks’ in combination

with the ‘carrots’ of financial incentives. On grounds similar to those presented by De Lathouwer (2004*b*), Cazenave (2004) questions whether ‘making work pay’ policies are appropriate at all in Continental social protection systems. Such policies may be successful in the Anglo-Saxon countries where, due to low or absent minimum wages and relatively restrictive social protection programs, there is no dearth of low-paid, low-skilled jobs and people willing to take them, but they are not likely to be very effective in the quite different social protection regimes in force in Continental Europe. And it is at least arguable that exchanging high unemployment for high rates of employment in poor-quality jobs is not necessarily an acceptable bargain (Cazenave 2004).

These arguments come close to the plea by Gazier and Zajdelas for a balanced combination of ‘making work-pay’ policies and ‘making transitions-pay’ policies. They specifically call upon policy makers to not only pay attention to short-term improvements on the labour market, but also to take into account a longer-term or lifetime perspective with respect to labour market actors (Gazier and Zajdela 2004).

Belgium is one case, the Netherlands is quite another. Nekkers et al. (2004) review the changing orientations in Dutch labour market policy. Much like what is happening in other more passive-redistributive welfare states, the Dutch transformed their welfare state within a few decades into a less generous and more activating regime with a strong MWP component. The use of financial incentives and the combination of carrots and sticks have become the predominant features in this new approach. However, policy makers view the impact of these MWPs as still too limited. The main reason, according to Nekkers et al. (2004), is the persistence of a system that is still too generous, consisting of a combination of a relatively high minimum wage and social benefit levels, which have to be financed by high taxes and social security contribution rates. Improvements can be made, it is argued, by a reform of MWP on the basis of the following elements: additional targeted activation-oriented reforms of social security in combination with adequate incentives for employers to hire more labour, and, in contrast to the Belgian case, means-tested individualised IWBs, such as targeted tax credits for single parents (Nekkers et al. 2004). If, eventually, IWBs contribute directly to upward market wage mobility, it is argued, they can remain temporary measures which is also one of the main aims of the European Employment Strategy. Recall in this context that in the EES upward wage mobility is taken to be a proxy for several other dimensions of the job

ladder, such as the transition from a low to more highly skilled jobs (Calendrino and Gagliarducci 2004).

One specific measure in the context of MWP and IWP is the *tax credit*. At the moment, there is a number of experiments being conducted in several EU countries with tax credits as a way to overcome the so-called ‘unemployment trap,’ by increasing the financial incentives, particularly for workers with relatively poor employment prospects, to take on available employment. Tax credits have historically been part and parcel of the deregulated labour market approach in Anglo-Saxon countries, where, in contrast to continental and social-democratic welfare states, legal social minimum wage protection is minimal or non-existent. The existing tax credits in the UK (WTC) and in the US (EITC) are considered effective because they not only contribute to a reduction of poverty, but also to an increase in employment. By supporting the long-term unemployed in making the transition from unemployment to employment they, therefore, seem to be more effective than minimum wage protection. As a consequence several EU-countries have recently introduced tax credits for low-paid workers. Preliminary evaluation studies of such policies implemented in France (the *Prime pour l’Emploi* or PPE), the Netherlands (Employment Tax Credit) and Belgium (Low Wage Tax Credit) suggest, however, that the effects of such ‘activating’ programs is limited as a result of the relatively modest incentives that have so far been offered and the fact that, given the relatively generous transfer payments available to this category of workers in these countries, the effect of such modest increases in financial incentives on overall earnings are likely to be relatively small (Verbist et al. 2004, Cazenave 2004, Courtioux 2004). The Belgian Low Wage Tax Credit, for instance, is a rather expensive measure as it is targeted on individuals instead of taking into account household income. Moreover, there is a delay of two years in calculating final taxes payable, which seriously undermines the immediate incentive effect, of course. In France many observers still see the PPE as a *Fremdkörper*, not fitting very well in the nature of the French welfare state tradition even as it performs rather modestly in facilitating unemployment-to-employment transitions. In short, for tax credits to be effective policy instruments in the Continental Welfare State context both the level of resources committed to it and their interactions with other social protection policies will have to be seriously examined.

Of a somewhat different order is the introduction of tax credits for the demand side. In Italy a tax credit for employers was introduced to stimulate firms to offer open-ended rather than

fixed-term contracts to (young) workers. According to the research findings available, however, this measure turned out to be mostly a dead-weight loss, as employers appear to have used the grant to a large extent to subsidize the hiring of workers who otherwise would have gotten an open-ended contract in any case (Cipollone and Guelfi 2004).

5.3.2. *Other policies and outcomes*

TLM researchers have examined the introduction and effects of a number of other specific policies. During the past decade, many EU-countries have taken initiatives in the form of new or modified legislation or by means of experimental programs aimed at improving the transition from unemployment to employment. At the end of the 1980s France, for instance, introduced the *Revenu Minimum d'Insertion* (RMI). The RMI consists not only of a benefit to combat poverty, it also contains several accompanying measures such as housing and training allowances directed towards activating the unemployed at the local level. In order to qualify, beneficiaries have to sign an 'insertion contract' stipulating their commitment to participate in specific programs and activities intended to help them find employment. The results of the RMI with respect to re-insertion of the long-term unemployed are mixed, in part because of the great diversity in treatments and trajectories at the local level (Outin 2004).

By contrast, Belgium has tried to improve the labour market participation of the long-term unemployed by suspending the so-called article 80 of the Unemployment Insurance law, so as to limit the amount and duration of the unemployment benefit, with the intention of activating the low-skilled in particular. As noted, the UI program in Belgium is rather generous. In theory the unemployed are entitled to an indefinite period of benefits. Moreover, Belgium is the only country with a one-pillar insurance-based UI-system. Means testing as a way to allocate financial incentives in the UI system is unknown. De Lathouwer and Bogaerts carried out an evaluation of the impact of the benefit period restriction on the labour supply and income position of long-term unemployed women with spouses. It had been suspected that a substantial proportion of this group had improperly used the benefit as a home care allowance. This suspicion was confirmed by the finding that the restriction of the benefit period hardly contributed to raising the labour market participation of these women at all. The real reasons for the weak searching behaviour of these women had apparently been a lack of financial necessity, an unwillingness or inability to combine work and care, weak commitment to paid work and the passive benefit regime. According to the researchers, the impact of financial incentives on labour market integration has to be put in perspective. At the very least, they

will have to be complemented with preventive measures, such as active career counselling, more stringent control and sanctions on willingness to work and facilitation through social investments in the combination of work and care (De Lathouwer and Bogaerts 2004).

Finally, in Sweden an experiment was carried out in a number of employment offices in Stockholm County in 1996-1997 using temporary employment counsellors who were themselves unemployed at the time, particularly to assist the long-term unemployed. The counsellors underwent some special training and were deployed specifically to increase the amount and quality of personal attention and help available to the long-term unemployed in cases where regular public employment officers were suffering from case-overload. An important aim of the project was to strengthen the participants' self-confidence and to support them actively in the searching process. It turned out that the probability of exit to temporary employment during the observation period was about 25% higher for project participants than for the job seekers in the control group. However, there was no significant effect on taking up permanent employment. Participation in labour market policy programs or regular education also increased and also contributed to raising the subsequent exit rate from unemployment. Even the very long-term unemployed (2 years or more) seem to have marginally benefited from the increased search intensity (Delander et al. 2004a).

The so-called 'scar' effects of (long-lasting) unemployment, that is, the significant negative effects of unemployment spells on workers' earnings capacity in the short and longer term, appear to differ between workers as well as countries. These differences appear to have something to do with the labour market regulation regime. Scar effects are significantly less serious in countries with *either* generous unemployment benefits *or* strict labour market regulation, but not both. Perhaps less surprisingly, scarring is also more severe in countries undergoing economic recessions (Gangl 2004). These partly rather puzzling findings actually fit rather well with the other findings of the TLM researchers we have reviewed. Generous unemployment provisions *combined with* strict regulation, such as is the case in Belgium, Germany and France, makes it neither attractive nor easy for the long-term unemployed to re-enter the labour market. On the other hand, in the absence of strict regulation, generous benefits do not *necessarily* prevent the long-term unemployed from finding new jobs (Denmark), although this is obviously much facilitated by a good economic climate.

Conclusion

The unemployment-to-employment transition has clearly become an issue of central concern to policy makers in a number of countries, in particular with respect to low-skilled and low-paid workers. This transition in itself has become more complicated by various developments such as the generally deteriorating earning capacity of the low-skilled, demographic developments (increase of single-mother households, increasing use of early exit options by older workers), changes in individual behaviour with respect to risk taking and, finally, increasing flexibility requirements on the demand side under the influence of ICT and globalization.

Interestingly, despite well-known substantial differences, policy developments in Anglo-Saxon countries (Canada and Australia) appear to have a lot in common with those in the more universalistic EU-welfare states, particularly with respect to the increasing popularity of supply side-oriented MWP and IWB policies, combined with increasing pressure on universalistic income replacing benefits. In this context it is, on one hand, interesting to see the attempts in Canada and Australia to import elements of the more activating TLM-approach into largely deregulated liberal labour market regimes, and on the other hand the still rather hesitant attempts in France, Belgium and other EU countries in introducing MWP and IWB elements into their still relatively generous welfare state arrangements. This raises the question whether, and to what extent, elements of the two systems are compatible or mutually exclusive. Put in different terms, can make-work-pay strategies be combined in a sensible and socially sustainable way with make-transitions-pay strategies, and under what conditions? TLM researchers are generally inclined to answer this question in the affirmative provided that MWP be accompanied by life-course oriented policies, such as the provision of accessible training and care programs. But there appear to be a number of difficult trade-offs that need to be confronted. For such policies to be effective and still affordable in the context of the relatively generous continental welfare state environment, they may have to include elements of targeting and (household) means testing as well as willingness-to-work controls, all of which are widely viewed as being contrary to the very spirit of these welfare state regimes. It certainly would seem to imply some shifting of the responsibility for managing social risks related to the labour market from the collective to the individual, which many view as touching the very core of the social solidarity principle that distinguishes the continental, universalistic from the Anglo-Saxon residual-liberal welfare state regimes.

5.4 Work-life balance and new forms of transitions and combinations related to household activity

In most European countries, first and foremost in the Northern social democratic ones, the labour force participation of women of child-bearing age has risen quite dramatically over the past several decades. Today, achieving a high rate of participation of women in the labour force has become one of the main targets of the EES, as part of a broader strategy to reduce gender inequality, as we have seen earlier. Given that women traditionally bear the main responsibility for child and home care, and that this remains largely the case, their influx into the labour market has naturally created a growing demand for a variety of transitions and combinations between work and care activities. From the TLM perspectives this raises important research questions with respect to the causes of the differences between countries in the evolution of female labour force participation, effects on the domestic division of labour, the work-life balance from a life-course perspective and the flexibilization of working hours.

5.4.1 Female labour force participation in comparative perspective

One factor which is related, in no doubt complicated ways, to the rise of the participation of women in the labour market is the trend towards changing, and more varied, family composition, which has been occurring, and at an accelerated rate during the 1990s, in all EU member states. Family units have in general become smaller, although there still remain striking differences between member states. Also, the number of couples without children has increased, as well as the number of singles without children and the number of lone parents. This greater demographic diversity coincides with a more varied pattern of labour market participation of males and females alike. But the common European trend is that the increasing diversity in family composition is strongly related to the substantial increase of labour market participation of women (Geurts 2004).

In general, there is a strong relation between a country's institutional welfare state type and the choices household members can make regarding the extent of labour market participation and the overall gender division of labour over the life course. Important in this respect are for example the design of family policy, the availability and cost of childcare facilities, the prevailing tax and benefits systems, gender wage differentials, employers' human resources management policies and working time regimes. For instance, the prevailing working time regime and, in particular, the range of available time options over the life course of the

various household types may favour or impede various balances between work and private life. In this respect, a comparison between Sweden and France shows considerable differences with respect to active labour market participation of young women with small children. In Sweden, and also in the other Nordic countries, family formation hardly impedes labour market participation at all, whereas the reverse is the case in France as well as in other Mediterranean welfare states. The main explanation for the difference is the existence of a generous parental leave system in combination with a complete employment guarantee in Sweden versus working time rigidities coupled with lacking childcare facilities for young pre-school children in France (Marc and Zajdela 2004).

A number of TLM-studies have focused on the so-called *child effect*, that is, the tendency for women having children to work less than women without children. As data from a paper by Vlasblom and Schippers on Germany, the UK and The Netherlands over the last 20 years show, this effect is not homogeneous across Europe. The authors discern several patterns. Although women having children do tend to work fewer hours than women without children in all three countries, in The Netherlands there is a noticeable trend towards more uninterrupted careers at childbirth, whereas in Germany there is a persistent tendency to leave the labour force while in The UK there have been no visible changes in behaviour around childbirth during the period covered. Generally, more highly educated women have higher participation rates than less educated women. Vlasblom and Schippers attribute the differences they find to divergent institutional changes in the three countries. Thus, for instance, in Germany adjustments in tax deductions contributed to making motherhood cheaper in comparison with the costs of combining work and family care (Vlasblom and Schippers 2004).

The importance of institutional factors is also quite apparent in a comparison of Denmark and Finland with Germany and Austria (Leitner and Wroblewsky 2004). Not only do Denmark and Finland have higher fertility rates than Germany and Austria, the two Nordic countries *also* have higher employment rates among women of child-bearing age and particularly in the 30-40 year age bracket. This is mainly caused by more favourable leave and income replacement regulations, in combination with return-to-the-job guarantees. Clearly, then, such policies matter a great deal in terms of affecting patterns of female labour force participation.

Using panel data from 13 EU-countries Uunk et al. found an interesting complement to the significance of institutional factors (Uunk et al. 2004). In addition to the influence of institutional differences, they also looked for possible explanatory effects of economic need and cultural values with respect to gender roles on the labour market participation of women around child birth. Their evidence suggests that economic affluence, as measured by country GDP per capita, does raise the ‘child effect’, i.e. it leads women to reduce their labour force participation around childbirth and thus it somewhat neutralizes the institutional effects of childcare and other support facilities, since the most affluent countries are also the ones with the most generous facilities of this type. On the other hand, they find no independent effect of cultural values with respect to gender roles on the reduction in labour force participation of mothers around childbirth (as opposed to the overall labour force participation of women) once institutional supports are controlled for.

This hardly means that culture does not matter, however. There is little question that the well-documented cross-country differences in overall labour force participation of women—as opposed to the reduction in labour supply at childbirth discussed above—is strongly influenced by differences in cultural attitudes. The study by Bevelander and Groeneveld (2004) sheds additional light on this matter. They compared changes over time in the labour force participation of native and immigrant women in The Netherlands during the period from 1991 to 2002. They found three distinctive patterns of change. The first pattern consists of increasing employment levels for native women for almost all age groups, but particularly in the marrying and child rearing age groups. The second pattern revealed strong employment integration and rising participation levels of all age groups of Surinamese and Antillian women, also including those of marrying and child rearing age. The third pattern, characteristic of Moroccan and Turkish immigrant women, is a more traditional one and shows negative effects of marriage and childbirth on labour market participation, although the overall employment rate of these women (in particular women between age 20-24) has increased as well between 1991 and 2002. Since in this case the institutional and economic environment are controlled for, there can be little doubt that cultural values must play a large role in accounting for these differences. Pons and Nyhus (2004), finally, even point to the possible significance of women’s personality on labour market choices, as women might have more home-centered preferences, work preferences or adaptive (a combination of work and home) preferences even independent of cultural values.

In sum, policies and institutions do matter. Advanced leave and income support regulations in the Nordic countries raise labour market participation around childbirth. Differences between other European countries also point to the significance of policies and institutional arrangements. At the same time, economic affluence and cultural values matter as well, but in complex interaction with the institutional setting. Affluence tends to dampen the child-effect reducing influence of advanced daycare and other such facilities to some extent, while cultural values seem to have no such effect but do appear to affect overall *levels* of female labour force participation.

5.4.2 *The labour market and the domestic division of labour*

The pattern of increasing female labour force participation accompanied by changing (declining) family size can be found in all advanced industrialized countries now. However, in addition to the aforementioned differences in terms of female labour force participation there appear to be significant cross-country differences in the relationship between female labour force participation and the domestic division of labour as well. Again, different institutional contexts and labour market policies, particularly accessible childcare facilities, account for a large part of these different outcomes. As Anxo et al. (2004) clearly show, the specific make-up of institutional arrangements can hinder or foster the choices household members make with respect to the extent of their labour market participation and this is also the case for the overall gender division of labour over the life course.

Not very much is known in detail yet about the more specific motives and preferences of young parents and how they affect the division of labour with respect to labour market participation and time spent on child caring and rearing. The general assumption often seems to be that both men and women have a strong preference for carrying out paid work to the extent made possible by institutional options and constraints. But Ghysels (2004) uncovers some very interesting differences based on a comparison of Denmark, Spain and Belgium. Not surprisingly, his data show that all parents spend more time with their children when they spend less time on their jobs, and also when they have more children and, furthermore, when their children are younger. However, he also shows that despite the higher employment rate of Danish parents, they spend on average *more* time with their children than Spanish and Belgian parents do. Ghysels conjectures that the type and level of response partly depends on a core of life-long preferences or a choice of life style and most probably is also coordinated with the life-plan of the partner. Ghysels finds some evidence of *joint* life-time preferences

with respect to the relation of work and child care and a certain clustering tendency at the extremes of couples who are either *career-oriented* or *care-oriented*.

In several countries, policy makers have attempted indirectly to influence the domestic division of labour by designing parental leave policies for both parents. One such program is the French APE (*Allocation parentale d'éducation*), which allows parents to withdraw partly or completely from the labour market with the birth of the second child and to receive a child rearing benefit. Although both partners are equally eligible for the APE, in practice almost only the female partners apply for the benefit. Only 2% of APE-receivers are men. Research with respect to their background shows that 80% of these fathers had stable jobs before receiving the APE, but mostly in so-called *feminine* jobs. Furthermore, 60% of the spouses of these men had a higher income than they and a majority also held higher educational degrees. The main reasons for fathers to stop working and take the APE benefit were financial. Clearly, the decision to stop is not taken on an individual basis, but jointly by the couple and is made at least in part with a view to the partners' professional career prospects (Boyer 2004). These findings largely agree with similar findings in other countries that have made an effort to design parental leave policies in such a way as to encourage fathers as well as mothers to make use of them. They contain a very important message from the policy point of view: programs intended to help spread the 'risk' of child-care and interruption of employment and careers more evenly between mothers and fathers must take into account the fact that, given the higher average earnings of males as compared to females in most settings, the financial incentives generally favour female over male temporary withdrawal from the labour force, irrespective of culturally determined child-rearing preferences. Put somewhat more bluntly, parental leave policies are unlikely to have an equalizing effect on the domestic division of labour before the gender gap in earnings and career prospects is substantially narrowed.

5.4.3 Family and employment from the life-course perspective

Institutionalised life-course arrangements potentially play an important role with regard to labour market integration, especially for women. This does not only concern the availability and costs of life-course related programs and facilities (daycare, parental or training leaves), but also a number of other things, such as the prevailing tax and benefit systems and the prevailing working-time regimes. In an international comparison of six European countries, Anxo et al. (2004) show that Sweden has advanced the furthest in providing flexible life-course arrangements, whereas the Mediterranean countries, and France to a lesser extent, are

definitely lagging behind in this respect. In between we find the continental welfare states Germany and The Netherlands, as well as the UK.

As the Belgian example shows, childbirth constitutes a particularly high risk with respect to employment for low-skilled women (Debacker 2004). There are several reasons for this. On average they have more children than higher skilled women. As a result they are more likely to remain at home because they have fewer possibilities to combine work and care. Moreover, childcare costs are a relatively higher burden for low-skilled women, due to their lower earning capacity. These women are also more often confronted with irregular working hours that are not compatible with the opening hours of child care facilities. Recently introduced policies in several non-Nordic countries with respect to time leave might alleviate this situation somewhat. In Belgium a *time credit system* was recently implemented. This system replaces the more limited career-break system that had existed since 1985. The time credit system covers more than just parental leaves and allows people to withdraw partially or fully from the labour market for a fixed period of time. What makes the system unique is its embeddedness in the social security system. In this respect it differs fundamentally from the new personal savings account-based life-course arrangement to be implemented as of the 1st of January 2006 in The Netherlands (Van der Meer and Leijnse 2004).

The Belgian time credit system compensates for income loss and also guarantees job protection. A first evaluation of the users of the time credit system shows positive results if compared with the former career break system. Take-up is much more equally distributed between men and women (in 2003 61% of the users were women and 39% men). However, most female users are under the age of 50, using the system mainly for parental leave reasons, whereas among men those of age 50 and older are overrepresented. The latter mainly seem to use the system for (partial) early retirement.

The individualised Nordic programs as well as the new time- and leave arrangement systems being implemented in other EU-countries raise an important question: to what extent are individuals really able to take major decisions at one point that will in principle affect their whole life course? Are they, and in particular the younger generations, sufficiently prepared to weigh the pros and cons of their decisions? Life-course decisions taken at one point in time will most likely restrict the options available for life-course decisions to be taken later on in life. The study by Ester and Kalmijn (2004) points to the complexities involved in the *life*

course reflexivity or *life course competence* that such decisions require of individuals. They find significant differences on three correlated dimensions (planning, saving and the cognitive dimension) between average ability of various groups to look towards the future. Age, for instance, is strongly related with future thinking. Older persons are more likely to organize and plan their future than younger people. Similarly, having a partner without children increases the degree to which people are planning their future, whereas having children reduces it. Differences in such *time heuristics* are also systematically related to the range of socio-economic variables, including education, income, etc.

Consequently, the increase in the number of choices that workers can make with respect to various labour market transitions may also lead to the emergence of new sources of social inequality over the life course that are quite unintended by the framers of the current leave policies. Ester and Kalmijn's preliminary research suggests that these are potentially quite important and that, therefore, there is a need to document these differences in time orientation and, where desired, begin thinking of ways to augment workers' cognitive resources that will enable them to make more informed decisions about the types and timing of possible labour market transitions over the life course. This should be an integral part of efforts to find new ways of managing social risks from the life-course perspective.

5.4.4 Flexible working hours

As indicated already, inflexible working hours can form a serious barrier to the labour force participation of women with small children. It is therefore of great importance to document the different working hour regimes in the member states of the EU. As the survey by Anxo et al. (2004) shows, in Sweden one can speak of a regime of *negotiated flexibility*, with the social partners firmly involved in not only shaping working time options, but also in legitimising them. Sweden has a large array of individual working time options, backed with employment guarantees. For households this creates extensive opportunities to adjust working time to various situations over the life course without substantial loss of income. In contrast, in the Mediterranean countries and to a lesser extent also in France public childcare facilities and flexible working time arrangements are less well developed. Hence, in those countries there is a sharp decline of labour market participation of women after childbirth, as we have seen already. In the in-between countries, The Netherlands, Germany and the UK, the only option is to choose between full-time or part-time work and consequently, women tend to move from full-time to part-time work after childbirth.

Some attempts are under way to guarantee by law the right of employees to adjust their working hours to other needs. Early indications are that such legislation does not, by itself, lead to a significant increase in flexible-hour schemes. Thus, in the Netherlands for instance, surveys show that a substantial part of the workforce (about one quarter) is dissatisfied with respect to hours worked per week and would like to work more or fewer hours. This is remarkable because the Dutch labour market appears to be characterized by a very high level of working time flexibility, as the full-time working week has been shortened on several occasions and the rate of part-time employment is very high by international standards. In response to the evidence about widespread dissatisfaction over working hours, in 2000 the Dutch government introduced the Adjustment of Working Hours Act, making it easier for workers to request adjustments of the number of hours worked from their employers. But research shows that only a small proportion of the dissatisfied workers succeeded in adjusting their working time, even after the implementation of the new legislation. Between 1986 and 2002 only 15-27% of workers wishing to work fewer hours and 22-35% of those wishing to work more hours were able to adjust their working hours accordingly during a two-year period while there were substantial differences between men and women (women exhibit much more flexible patterns). Thus, the evidence suggests that the new legislation is not very effective in meeting the problem of widespread dissatisfaction with time constraints (Fouarge and Baaijens 2004). Evidence from Germany seems to point in the same direction. In 2001 the German government passed the Part-Time and Fixed-Time Act which sought to reduce the rate of dropping-out of the labour market because of time constraints. The act gives full-time employees the right to reduce the number of contractual working hours, provided they have worked at least six months in the current firm. Yet, contrary to expectations, job mobility because of working time constraints did not significantly decrease after the introduction of the new legislation (Munz 2004).

While there is some evidence confirming the potentially positive effects of labour market transitions in permitting preferences and actual working hours to converge over time (or to reduce discrepancies between them), there does not seem to have been a recent structural increase in such transitions in labour markets, not even under improving labour market conditions, which presumably permit more 'integrative' transitions of this kind. The proportion of workers experiencing significant discrepancies between desired and actual

working hours appears to have remained surprisingly stable (Bijwaard, Van Dijk and De Koning 2004).

To conclude, then, the evidence so far seems to suggest that legislation alleviating or mitigating working time constraints by itself does not necessarily produce greater flexibility of working hours, as experiences in various EU-countries show. The most successful policies to increase working time flexibility appear to individual life-course oriented programs such as those in existence in the Nordic countries and close cooperation between the social partners in negotiating and helping to legitimize flexible working hours arrangements (Anxo et al. 2004, Boyer 2004, Debacker 2004, Van der Meer and Leijnse 2004, Hillebrink et al. 2004).

Conclusion

The work-life balance and transitions between work and care are obviously and closely linked to issues of gender equity. While the single-breadwinner model may be waning, women still remain the primary care givers within the family. This poses specific work-life reconciliation problems for women with (young) children. As cultural values and orientations with respect to gender roles slowly evolve, however, men are also likely to be faced with such problems to a greater extent. Perhaps the most striking finding of the research about the work-life balance is the great importance of policies and institutions in determining people's choices and behaviour in this area. The still considerable differences in the female labour force participation rates between countries are largely explained by differences in deliberate policies and institutions that serve as facilitators or obstacles to combining work and family responsibilities. But such policies cannot stand on their own to have the desired effects. For instance, parental leave programs that tie benefits to earnings will not serve as an effective incentive for fathers to take parental leaves until the earnings gap between men and women is substantially reduced. Similarly, legislation to promote the flexibilization of working hours will only have the desired effect if they are supported by other institutions and by the social partners themselves. Finally, as programs to better manage new social risks and to smoothen various labour market transitions over the life course proliferate they may well create even newer social risks that need to be confronted, in particular the issue of inadequate cognitive resources for individuals to make informed decisions about the various transition options they face which can have profound and lasting effects on their subsequent careers and lives.

5.5 Active retirement: New solutions to demographic needs and individual preferences

Early retirement incentive programs were briefly a popular approach with politicians and social partners alike because it seemed a relatively painless way to relieve supply pressures on labour markets with high levels of unemployment. However, as the future costs of the rising ratio of retired to working-age populations have become more and more apparent, these schemes have lost some of their appeal. In recent years, policy makers have gradually come around to the position that it will become increasingly necessary to *keep* older workers in the labour force rather than pushing them out. Thus, recent reform policies with respect to the employment-retirement transition in almost all member states converge in attempting to restrict alternative (early) retirement options, such as some unemployment and disability benefits and early retirement arrangements. These restrictions mainly affect financial (dis-)incentives. To a certain extent these instruments really work. However, as several TLM studies suggest, there are a number of issues that are not likely to be resolved by financial (dis-)incentives alone.

One important consideration is that the quality of jobs is likely to have a powerful influence on the attractiveness of the retirement option. There is much evidence showing that the likelihood of older workers staying in the labour force is strongly related to earnings, education and, thus, quality of the job (Davoine 2004). It would seem to follow from this finding that financial incentives for (early) retirement are likely to have the strongest effect on the labour force behaviour of older workers with relatively low-quality jobs while being less effective in modifying the behaviour of workers with higher quality jobs. Alternative policy implications can be drawn from this. Policies affecting the financial side of (early) retirement might be differentiated according to the skill/quality level of the job so as to try and elicit the optimal mix of activity and inactivity within the eligible population. Alternatively, more resources may be devoted to training facilities for older workers so as to render them able, and presumably more willing, to take on more engaging, high-quality jobs. It is also important in this respect for policy makers to take more explicitly into account a lifelong perspective, as the quality of jobs held over the course of one's career affect both one's ability to obtain or retain a high quality job and, as a result, the likelihood of (early) retirement.

Several research contributions address the problems involved in re-training older workers, both from the point of view of cost-benefit conscious employers as well as of older workers anticipating relatively short periods of remaining in employment, and also in view of rapidly advancing ICT with the attendant changes in required skills. For The Netherlands De Koning and Gelderblom (2004) specifically analyse the position of older workers vis-à-vis the use of ICT in the printing sector. They show that older workers make less use of ICT in their jobs than younger workers, and that they also use less complicated applications and have more difficulties in using ICT. This result becomes all the more striking when one takes into account that in the Netherlands only 40% of the age cohorts of 50 years of age and older is still working. Thus, De Koning and Gelderblom conclude, ICT may well disadvantage older workers and contribute to (early) retirement as their lesser use of ICT puts them at a (further) disadvantage, compared to their younger colleagues. De Koning and Gelderblom believe that the validity of their results is not restricted to the Dutch printing industry, but that it holds for other industries in which ITC plays an important role as well.

One proposed way of trying to keep more older workers active in the labour force is by enabling and encouraging such workers to take *part-time* retirement instead. But there is some evidence suggesting the possibility of perverse effects of (part-time) early retirement programs. Thus, Courtioux (2004) finds that especially large firms appear to have availed themselves of the possibilities of sending *some* of their older workers into early and/or part-time retirement as a way to selectively retain their most desirable older employees while getting rid of the others. Also, where several programs are in place to cater to different kinds of early and/or part-time retirement, there exists the possibility of unintended *cannibalization* of one program by the other, resulting in changes of the clientele away from the originally targeted population. In addition, there is quite a bit of experimentation going on within firms as well with respect to various (early or partial) retirement schemes (Tros 2004), a factor which will have to be carefully taken into account in the design of public policies.

In view of these various complexities several researchers recommend the use of alternative approaches, containing both supply- and demand-side aspects, rather than relying on financial incentives alone, in order to more effectively neutralize the age effect on the labour market (Courtioux et al. 2004). Examples of such alternatives are given by Gazier, and contain for instance the following proposals: to calculate retirement pension benefits on the basis of overall career earnings, and not only with reference to the last years of employment, to create

adapted transition jobs for senior workers (so-called bridging jobs and part-time jobs) and to maintain retirement rights during career breaks (Gazier 2004). In sum, then, as Anxo and Erhel conclude, the pattern of retirement transitions is the result of a complex institutional system, of which financial incentives or disincentives to work are but one part (Anxo and Erhel 2004).

5.6 Sustainable employment insurance

5.6.1 Labour market policy delivery reforms

Whereas traditionally it has not been unusual for training services to be outsourced to private or other public providers by the Public Employment Service office (PES) in many countries, the outsourcing of the ‘core’ functions of the PES, in particular placement and reintegration services, especially for the long-term unemployed, is a relatively new phenomenon. A number of countries are currently experimenting with various forms of such outsourcing, and have effectively created ‘quasi-markets’ for these services (Struyven 2004). A general concern with the outsourcing of such services is the problem of controlling the behaviour of the private subcontractors so as to produce the desired outcome in a manner that is more efficient than the public equivalent would have been. This is essentially a classic ‘principal-agent’ problem as studied by the New Institutional Economics (Williamson 1975; 1985; see Bruttel 2004). The main problem in the area of employment services, which is already well-documented in the existing labour market policy evaluation literature, is that it is exceedingly difficult to design the incentives facing the private agencies in question in such a way as to prevent so-called ‘creaming’ or ‘cherry-picking,’ and ‘parking’: private agencies tend to specialize in finding employment and training only for those workers who already have the best prospects of finding jobs and benefiting from training, leaving the more problematic cases for the public agencies to deal with.

Several papers have looked at the preliminary results of such reform experiments in a number of countries. In the Netherlands and Australia, and in a more limited fashion in the UK, much of the former PES services has now been contracted-out to private, profit-making firms. In all three countries, however, the public agencies doing the outsourcing (the ‘principal’) are struggling to find mechanisms to ensure the proper alignment of incentives with effective outcomes and techniques to monitor actual performance by the private subcontractors. These efforts are fraught with complications having to do with the difficulty of assessing the *net*

effect (i.e., over and beyond what would have occurred without them) of the services provided by the subcontractors. But certain advances have been made in this area, in particular in designing incentive schemes that combine fixed with outcome-related forms of payment and monitoring techniques such as benchmarking subcontractors (Mosley and Schütz 2005; Hilbert 2004; Bijwaard, Van Dijk and De Koning 2004) against one another, profiling client target groups in order to assign weights to various forms of successful outcomes which are in turn tied to differential rates of payment, and so on. However, such instruments are still in their infancy and thus too crude to provide reliable evidence on the actual net effects of providers' services (Bruttel 2004; Struyven 2004; De Koning 2004; Sol 2004).

Given the tendency towards 'cherry picking' and the tendency for the resources devoted to public employment services to be cut back when private subcontractors are taking over some of their functions, it is exceedingly difficult to assess the net effect of the private contractors' services as compared to those of the public employment offices. Early findings of comparative work on the privatization of placement services in Australia and the Netherlands do not appear to support the contention that private services are more efficient than public ones (Struyven and Geurts 2004). One study of a Swedish experiment involving the contracting out of placement services for 100 unemployed immigrant workers to an existing private temporary employment agency was conducted under such carefully controlled quasi-experimental conditions that its results must be taken very seriously indeed. Delander, Månsson and Nyberg (2004) were able to examine the placement results of the private agency with those of a public employment service that had received resource reinforcement equal to what the private agency had received and another where business continued as usual. Given that the client samples had been selected carefully for comparability and that the comparisons were in part for groups and agencies operating in the same local labour markets, their results are quite striking: the private agency did significantly worse than the 'reinforced' public agency and no better than the 'ordinary' public agency in placing their unemployed immigrant clients in jobs. This would appear to be clear evidence *against* the proposition that private agencies are likely to be more efficient and proficient in providing employment services than public agencies. However, in this case the private agency was an existing firm with a strong tradition and bias in favour of serving the interests of employers, whom it had considered its *real* clients, rather than unemployed workers, which is, the authors hypothesize, the reason why it did so much worse than the comparable public employment office in placing this particular group of presumably hard-to-place unemployed workers.

A study comparing two limited experiments with private providers of placement services for the long-term unemployed in Germany and France (Silver 2004), also suggests that the possible gains from private service provision depend on a complex set of factors. Silver finds that the private providers were successful as long as they were able, due to relatively small numbers of clients, to provide a highly personalized, face-to-face service to clients and able to mobilize their local networks of employers, but that this ability diminished significantly as the number of clients grew to approach those the public employment offices are used to handling.

5.6.2 From unemployment to employment insurance?

The general idea behind the various ‘activating’ measures that are currently being tested in different jurisdictions is that rather than passively subsidize the temporary inactivity of workers who have lost their jobs, government policy should aim at helping them acquire the skills and motivation to find new jobs where they are available. Thus, labour market policy should aim at maintaining or restoring unemployed workers’ employability rather than serving merely as a passive way of tiding them over a difficult period. This general idea is currently often presented as a shift from unemployment insurance to *employment insurance* (e.g., Schmid 2002). But while the rhetoric of employment insurance is catching on fast, the political practice is often rather more mundane. Thus, for instance, the much-celebrated major overhaul of the Canadian Unemployment Insurance system of 1996, hailed as “the most fundamental restructuring of the Unemployment Insurance program in 25 years” (Van den Berg et al. 2004: 1) turns out, upon closer inspection, to be not much more than a disguised cost-cutting exercise. There is no question that recent governmental enthusiasm for ‘activating’ policies elsewhere has also been to a considerable extent fuelled by hopes of being able drastically to cut the high costs of current earnings support programs, particularly where large numbers of long-term unemployed are involved.

At the same time, there has always been a further, more subtle motivation behind much advocacy of ‘active’ rather than ‘passive’ labour market policy, one that corresponds rather closely to some of the reasoning underlying the idea of transitional labour markets, ‘flexicurity’ as well as the Lisbon strategy. This is the idea that ensuring the *employability* of workers who have lost their previous jobs or are in danger of losing their present ones - *as opposed to* trying somehow to protect those jobs - is a way of securing protection against social risks *and* effective labour market (re-)allocation at the same time. It is worth noting in

this context that this was already the reasoning underlying the older emphasis on ‘active’ labour market policies as originally advocated in the Swedish Rehn-Meidner plan of the 1950s. Moreover, at least in the classical Swedish case, such active measures have been explicitly advocated as a way to *reconcile* otherwise fearful and possibly—given strong unions—recalcitrant workers with the need for continuous restructuring that characterizes a dynamic capitalist economy (see Van den Berg et al. 1997: Ch. 4).

In a fascinating inversion, it appears that in the Danish case it is the employers who have come to accept the desirability of relatively generous and high unemployment insurance benefits as a way to stave off otherwise predictable demands for greater (current) job protection. Moreover, the Danish system of continuous re-training through readily accessible trades colleges appears to function as just the kind of employability guarantee that the current advocates of flexicurity and employment insurance are calling for. But as we have noted above already, one should not lose sight of the peculiarities of the Danish case which have ironically made it into the sole and quite unintended (see Madsen 2004; Larsen 2004) executor of what once was touted as the ‘Swedish Model’. It appears to be the *combination* of an economy dominated by small and medium-sized firms *and* a powerful labour movement *and* strong neocorporatist traditions of cooperation between the social partners, that explains the Danish success and that would be difficult to replicate anywhere else. It is perhaps not surprising, then, that it was in the Danish context rather than in Sweden that the original idea of flexibility *in exchange for* collectively underwritten employability, or employment without job security, eventually took hold.

A further caveat is in order at this point. There is by now a large body of literature evaluating the effect, or lack thereof, of various ‘active’ labour market policies. It is a rather sobering literature in that it only provides sporadic and highly qualified support for *some* of these policies under *some* circumstances (see our discussions above of the TLM findings in this respect). But there is one finding about such policies that is quite unambiguous: they are not cheap. Thus, Denmark spends close to 1.6 % of its GDP on active labour market policies alone, Sweden spends about 1.4 % while the comparable figure for the UK is about .4% (Madsen 2004, p.5).

6. The Five Main Labour Market Transitions Revisited: Summary of Main Policy-relevant TLM.NET-results

In this brief chapter we will summarize in point form the main policy-relevant findings of the TLM papers reviewed for this report. We will arrange them by the type of labour market transition, rather than by the broad topics of the network's work packages as done in Chapter 5.

Transition I, between 'precarious' forms of employment and permanent, full-time employment:

- Temporary, casual and part-time jobs are most likely to serve as stepping stones to permanent, full-time jobs where there is the least amount of job protection for the latter; conversely, job (dismissal) protection of permanent jobs tends to produce segmentation
- Education, work experience and employment history play an important role in upward as well as downward mobility between precarious and permanent jobs
- Low-skilled workers are in increasing danger of becoming marginalized; early education is crucial in allowing low-skilled workers to benefit from further training to prevent marginalization; some degree of early 'over education' may be desirable
- The Nordic countries, especially Denmark, *as well as* the 'liberal' welfare regimes appear to perform best in terms of providing high levels of social protection and flexibility and upward mobility into permanent jobs at the same time ('flexicurity')

Transition II, between unemployment and employment

- There is a general tendency throughout the countries studied towards a more 'activating' approach, involving both cutbacks in UI benefit levels and maximum durations and a stronger emphasis on a variety of back-to-work incentives
- The introduction of a number of make-work-pay policies and in-work-benefits approaches may only work if they can be targeted directly to the population with the most urgent needs (i.e. means-tested), which is widely viewed as a violation of the universality principle of the Continental type of welfare state
- So-called 'scarring effects' of long-term unemployment tend to be worst where benefits are high *and* job protection strong, but not where only one or the other obtains

- Generous unemployment insurance benefits by themselves do not necessarily produce high rates of (long-term) unemployment (e.g., Denmark), and neither do punitive restrictions of benefits necessarily help to re-activate the long-term unemployed
- Various experiments with new service delivery methods have not supported the contention that private provision is more efficient or cheaper than public provision; they do suggest, however, that high-intensity, closely client-tailored, and thus also relatively expensive services work best to help re-integrate the (long-term) unemployed into the labour market

Transition III, between education and employment

- Institutional rigidities (e.g., relatively high minimum wages, weak linkage between initial education and the labour market) produce great variations in the extent to which young entrants into the labour market are successful in finding fitting employment
- Rising demand for a highly-skilled and especially highly trainable workforce and frequent updating of skills render stronger emphasis on life-long learning facilities ever more crucial to competitiveness and employability
- Early general education, rather than vocational training, is becoming an ever more indispensable prerequisite for future trainability
- Certain groups are in danger of becoming marginalized in the emerging 'knowledge-based economy' because the prospect of immediate returns to investment in their human capital appear weak to employers: part-time and non-permanent workers, low-skilled workers, older workers. Public provision of (re-) training facilities for these groups will be necessary if growing segmentation on the basis of skill is to be prevented
- The effects of publicly provided labour market training programs have been modest to disappointing, but indications are that major improvements can be achieved through much closer linkage with local labour market needs and through more careful tailoring of training spells to workers' long-term labour market trajectories

Transition IV, between domestic activities and employment

- Institutional facilitation or hindrance, especially the absence or presence of parental leave programs and day-care facilities, play a major role in determining the labour force participation of women of child-bearing age, even after controlling for cultural orientations to gender roles and economic need

- The availability of flexible working times has an important effect on parents' (mostly mothers') ability to reconcile employment and family care commitments, but it requires strong societal backing in addition to legal support
- Child birth poses particularly difficult problems for low-skilled women in combining employment and family care, as their jobs tend to be most time-inflexible and child-care facilities tend to be relatively costly for them
- Efforts to try and influence the domestic division of labour through parental leave programs will have limited effects until the male-female earnings gap is substantially reduced
- Leave programs based on the idea of time credits or drawing rights appear promising in helping parents combine work and care over the life course, but they raise new issues of life-course reflexivity and inequalities of cognitive resources to manage life-course-affecting options and decisions

Transition V, between employment and retirement

- There is a general trend away from the early retirement options that were still quite popular with the social partners in many countries until recently and towards policies intended to encourage older workers to remain active longer
- The predisposition to respond to financial incentives to take or postpone (early) retirement is highly stratified according to the quality of the job; consequently, a differentiated policy approach, using financial incentives in combination with training options and job (re-)design is called for
- Older workers are particularly vulnerable to skill depreciation as a result of the ICT 'revolution'; specific, publicly-initiated policies may be needed to help older workers acquire and maintain the skills necessary in an increasingly ICT-dominated work environment

7. Concluding Remarks: Towards a European Employment Insurance Strategy?

In this document we have reported on the most important research findings of the TLM.NET project from the point of view of the strategic goals of the EES. We view the EES here as an important practical application of the European Social Model, because it contains a combination of employment policies and policies directed at achieving social cohesion supported by economic growth through enhanced efficiency and competitiveness. The vision underlying the EES and the ESM is essentially the same as the one that has motivated the research of the participants in the TLM.NET: to find the ways and means that will enable us to create and sustain a society and an economy that is both efficient and equitable, both competitive and just. Behind this vision lies the realization, hard-won from the many painful experiences and experiments of the 19th and the 20th centuries, that a society that is efficient without being seen as equitable is as unsustainable in the long run as one that is seen as just but patently unproductive.

Yet so far the results of efforts to realize the ambitious and high-minded targets of the EES have been disappointing. Rather worryingly, the failure to meet the preliminary Lisbon targets has led several task forces to recommend scaling down the level of ambition of the EES rather than search for more effective ways of achieving them, as we have noted in Chapter 4 above. While there has been some modest progress in terms of raising labour force participation rates, unemployment rates in much of the EU have remained stubbornly high at almost 9% for the Euro Area as a whole, reflecting a spread from around 4.5% in Austria and Great Britain to 10% and more in Belgium, France, Germany and Spain. In contrast, the unemployment rates of the US and Australia hover around 5%. The rate of long-term (one year or more) unemployment seems stuck at around 50% in some of the European countries even as the labour force participation rates remain significantly lower than those in the Anglo-Saxon countries. Perhaps even more worrying, as our own research has tended to show as well, certain categories of vulnerable workers in Europe are in danger of becoming *increasingly* marginalized in the emerging knowledge-based economy. These include the low skilled, women, youth and older workers. It is particularly among these categories that one finds high rates of long-term unemployment and inactivity.

According to many observers, the sharp contrast between the labour market performance of much of Europe and that of the Anglo-Saxon countries merely reflects the inescapable trade-

off that policy makers have to face. According to this line of reasoning, European policy makers face a stark choice between *either* a system of unregulated markets with minimal social protection, yielding flexibility and efficiency, but also high earnings inequality, *or* extensive social protection, particularly for the weakest groups on the labour market, yielding security, more equity, but also high levels of long-term unemployment and inactivity. Put in other words, it is no more and no less than a choice between two evils: a system in which there will be a large number of working poor unable to lift themselves out of poverty, versus one with a large proportion of the labour force more or less permanently unemployed because they have neither the productive capacity nor the incentive to return to the labour market, a choice, that is, between the *poverty trap*¹⁸ and the *unemployment trap*.

This stark choice is often replicated, however inadvertently, by those who would consider any tinkering with the hallowed principles of generous, collective, universalistic social protection as a Trojan horse that will inevitably bring down the entire European welfare state. But to refuse any reform is to effectively acquiesce to the present, ultimately non-sustainable condition. If there is to be any progress towards an inclusive *as well as* competitive economy in Europe, we will have to be prepared to face up to the actual trade-offs that confront us in the real world, and be willing to give up *some* of our cherished ways, if only to avoid having to give up even more cherished principles later on. In short, Europeans have to be prepared to question past assumptions and commitments to specific social programs, policies and institutions, and even more to specific combinations of them. They will need to have an open mind in considering alternative, possibly hybrid and unorthodox approaches and solutions. It is our conviction that the TLM-approach, and the social-scientific research it has inspired, provides a framework for policy makers to start doing just that.

In what follows we briefly indicate, on the basis of our social scientific research, what some of the most important, and possibly most painful, trade-offs are likely to be. After that, we will conclude this policy analysis with a brief call for a pan-European commitment to confront them head-on.

¹⁸ See e.g.: Ehrenreich (2001).

7.1 Some Fundamental Issues

In our view, the research carried out by TLM.NET has thrown up a limited number of general, potentially controversial themes and dilemmas which policy makers will have to face on their way to finding effective policies and models to improve the performance of European labour markets without abandoning its high standards of social protection. In our view, these are:

- (a) The need to reconsider forms of social protection that may protect some at the expense of others
- (b) The need to redefine to some degree the balance between collective and individual responsibilities in managing social risks
- (c) The need to target social programs to those most in need of them, rather than sticking to traditional universalistic arrangements
- (d) The need to invest massively in training and education on a life-long career basis of selected groups of vulnerable workers
- (e) The need to increase efforts to overcome the still unequal gender division of labour
- (f) The need to activate older workers, possibly also requiring selective rather than universalistic solutions

-Social protection as a form of social exclusion

One of the central premises of TLM is that labour market behaviour, and the underlying preferences, have become much more heterogeneous in recent decades. In particular, the single-breadwinner model is making way for a variety of different arrangements. Yet many of the existing forms of social protection, particularly in the ‘Continental’ and ‘Southern European’ welfare states, were designed specifically with the single breadwinner in mind. This is especially true for various statutory forms of job and dismissal protection. Mounting evidence suggests, however, that this kind of job protection may have the effect of segmenting labour markets into those with protected jobs and those with ‘precarious’ forms of employment, making it very difficult for the latter to move up to a permanent job. Once upon a time, this kind of job protection may have served primarily to protect those who would otherwise have been vulnerable on the labour market, but under the current, more heterogeneous circumstances they may mostly serve to protect jobs for those least in need of protection while shutting out precisely those most in need of permanent employment. They increasingly serve to protect the jobs of a gradually shrinking group of relatively privileged

workers, while at the same time excluding an expanding group of other workers with less favourable working conditions. The right to the same job for life, given acceptable performance, was once a major *acquis social*, to be defended at all cost. However, if the economy is to become more dynamic and competitive, and given the entrance of non-traditional categories of workers into the labour force, the time may have come to consider whether *alternative* forms of social protection would not be both more economically sound and more equitable. The Danish case is relevant here because it shows that it is, under certain circumstances, possible to provide employment and earnings security *without* tying them to *job* security. Policy makers and the social partners in countries where job protection is still relatively strict need to look very carefully at the Danish example to learn how and when it is possible to replace job with employment protection without provoking sharp social and political conflict.

- *Redefining the balance between collective and individual responsibilities:*

Whether we like it or not, the shift from passive to more ‘activating’ labour market policies that has been going on across Europe and elsewhere, also implies, to varying degrees, a shift from collective to more individual responsibility for managing social risks. The various making work pay schemes that TLM researchers have examined all contain some elements of greater pressure on individual benefit recipients to become more active in the search for suitable employment or training. Some of these include some fairly strict monitoring and possibly severe sanctions for individuals who refuse to cooperate. To many this ‘carrot and stick’ approach has a distinct flavour of Anglo-Saxon ‘workfare’ about it, which, they feel at least partly blames the individual for not being able to find suitable employment rather than the community for not creating such employment. Some fear that the introduction of such seemingly neo-liberal elements is part of a trend towards ‘making people fit for the market’ instead of ‘making the market fit for people’ (Gazier 2004). While such fears may well be justified, there is no escaping the fact that dealing with the European (long-term) unemployment problem will necessitate, *inter alia*, some modification of the traditional ‘passive’ welfare approach. The question is not whether this implies a shift from collective to individual responsibility to some degree, but *how* and to *what extent*. If we are to effectively avoid a gradual slide towards a neo-liberal regime of minimal protection, we will have confront this issue head-on and openly, without allowing past associations and expectations to cloud our judgment. Here as well it is worth mentioning the fact that the Scandinavian approach has always contained a fairly pronounced element of ‘workfare’ and that this

element has played an important role in helping to legitimize the system of relatively generous benefits for the population at large. At the same time, it is also clear that this Scandinavian approach functions best when jobs are readily available, which is, of course, something governments can take some responsibility for as well. Again, policy makers and observers would do well to study the successes and possible failures of the Scandinavian approach very carefully indeed, with a willingness to consider the potential benefits of various non-orthodox and hybrid policy alternatives.

- The need to target social programs, instead of keeping universal arrangements:

Targeting social programs to those most in need, i.e., some form of means-tested implementation, is also widely seen as belonging to the minimalist, mean-spirited approach followed in the Anglo-Saxon world. The main argument against it is that targeting usually contributes to stigmatisation and thus ultimately helps to undermine public support for the social protection program in question and ultimately for the welfare state as a whole. There is no doubt that such targeting is traditionally most forcefully promoted by political forces whose commitment to the welfare state in general may well be less than wholehearted. Nevertheless, even those strongly committed to a universalistic welfare state will have to take very seriously the generally negative findings of TLM researchers with respect to the effectiveness of many in-work benefits and make work pay policies as currently implemented in the continental welfare state environment. If policy makers refuse to give up the principle of universalism in favour of some degree of targeting then such policies are almost bound to be ineffective because benefits must either remain insignificant or the policy will become fiscally unsustainably expensive. In this context it is worth reminding ourselves that universalistic application of such policies inevitably, almost by definition, leads to some significant portion of the benefits going to people who manifestly do not need them. As we know from the relatively contentious politics of welfare reform in recent years, this, too, is likely to undermine public support for the programs in question. This does not mean that targeting or means-testing is a panacea to be applied indiscriminately. It means that one needs to be willing to consider its potential benefits where and when they are clearly likely to outweigh the costs. This is no simple matter, we agree, but it is one that will have to be taken up. The central question for policy makers here is whether targeting effectively contributes to diminishing dependency on social security or long-term unemployment when compared with universalistic arrangements. If that is the case, targeting needs to be considered as a serious alternative to current universalistic arrangements. A second question in this respect is how to

design targeted arrangements, either through fiscal measures or through social security contributions. The choice between these alternatives is closely linked, of course, with the politics of public justification of social protection policies. When introducing targeted programs, policy makers will in any case have to be extremely sensitive to the need to maintain public support for the programs in question, but *especially* so if they are to be financed through general fiscal means.

- The need to invest massively in training and education on a life-long career basis of selected groups of vulnerable workers:

Our research clearly shows that there are significant, identifiable groups who, because of the employers' concern with relatively short-term profitability have little or no access in the private sector to facilities to upgrade their productive capacities in order to improve their position in the labour market. This is particularly the case for the most vulnerable groups of workers, including those starting out with low skills, women, workers with non-permanent jobs, and older workers. Moreover, their possible marginalization is likely to become only more acute as the emerging knowledge-based economy is raising the demand for high-skilled labour and frequent upgrading of those skills. For these categories of workers, only the public sector is able to provide access to the requisite training. To be sure, the record of effectiveness of publicly provided training programs associated with labour market policy, in terms of upgrading skills and productivity that enable workers to find better-quality jobs on a durable basis in the private sector, is not particularly impressive. At the same time, these programs are notoriously expensive to finance. But as suggested, there simply is no real alternative, other than allowing further increases of (long-term) unemployment among the most vulnerable workers. There are, in addition, some indications in the TLM findings on training and education as to how the effectiveness of such publicly provided training programs may be significantly improved. A major and recurring finding is that the most *decentralized* programs work best. Close collaboration between the social partners at the local level and tight linkage to local labour market conditions seem to be the factors most conducive to effective labour market training programs. Again, the Danish case may prove to be informative and possibly exemplary: its system of trades colleges, operated by unions, employers and local authorities at the local level, appears to work very well in providing workers with access to relevant skill upgrading facilities on a life-course basis.

- The need to increase efforts to overcome the still uneven gender division of labour:

With respect to the participation of women in the labour force, much progress has been made in many countries, but there also remain a number of well-identified institutional barriers in certain countries that could and should be removed by following the policies of the countries that have been more successful in this respect. Our research confirms the well-known finding that deliberate policies and facilitating institutions have been extremely successful in stimulating increased labour force participation of women, particularly women of child-bearing age. At the same time, policies and institutions can do only so much. In particular, attempts to promote further equalization of the gender division of labour, domestically as well as in the labour market, through parental leave programs are likely to be relatively ineffective as long as a significant male-female earnings gap persists. Here is an obvious case where only a combination of well-coordinated policies and programs is likely to yield significant results in the long run. Whereas TLM studies have shown that legislation by itself, for instance with respect to the right to flexible working hours, is likely to remain relatively ineffective if not actively supported by the social partners, for incentive schemes to be effective the gender earnings gap will have to be closed substantially, possibly in part through more effectively legislation.

- *The need to activate older workers, possibly also requiring selective rather than universalistic solutions:*

Here, too, universalistic solutions may have to be abandoned. As our research shows, different categories of older workers are likely to respond quite differently to various incentives to retire or stay in the labour force. These differences appear to be tied primarily to the quality of employment. This presents policy makers who increasingly feel the need to (re-)activate older workers so as to avoid the looming fiscal crisis concerning pensions with some complicated choices. One possibility is, once again, to give up the traditional universalistic approach in favour of a more differentiated combination of policies. Thus, financial incentives not to retire (early) might be targeted at only those types of workers who are likely to respond to them. In addition, however, it looks as though it should be possible to *complement* and perhaps to some extent replace financial incentives by offering training for higher-quality jobs as well as by promoting job redesign to create jobs more suitable for the capacities and needs of older workers. Such a multiple policy repertoire will take some time and effort to develop and will require a great deal of examination of various experimental reforms currently going on in different countries, not to mention a fair amount of political persuasion.

In sum, in our view our research suggests that policy makers and experts need to keep an open mind in their search for solutions to the big dilemmas of labour market policy today. They must be willing to consider sometimes unorthodox, but evidence-based solutions. Ultimately the very sustainability of the European Social Model depends on it.

7.2 Towards a Sustainable European Social Model: The European Employment Insurance-strategy (EEIS)

Recall that, as we noted in Chapter 4 above, with respect to labour markets the core principles of the European Social Model are expressed in the European Employment Strategy (EES). In it, the European Community declares four top priorities as part of the so-called ‘Lisbon objectives:’

- Attracting more people in employment
- Increasing the adaptability of workers and enterprises
- Investing in human capital and making lifelong-learning a reality
- Improving the implementation of reforms through better governance

As we have also argued above, the TLM approach is, in a number of respects, an attempt to sharpen these objectives and formulate fairly concrete proposals with respect to policies that may be expected to achieve these strategic goals most effectively. In addition, however, the TLM approach has, from the outset, sought to do this in the very spirit of openness to hybrid, unorthodox, but solidly evidence-based solutions that we have called for in the previous section.

As noted, the TLM perspective looks at the issues from a social risk management (SRM) perspective. The risks to be managed are the more traditional class risks, but also life-course risks and gender risks. In broad terms, TLM recommends that the management of these risks consist of the following building blocks: employment security combined with transition security, an adapted norm of full employment, making work pay and making transitions pay. A successful social risk-management strategy will consist of a mixture of public and private arrangements. The TLM approach to social risk management would consist of four consecutive ‘pillars’: unemployment insurance as a first pillar, mobility insurance as a second

pillar, transfers and provisions aimed at equality of opportunities as a third pillar and finally, private insurance as a fourth pillar. Finally, TLM theory views social risk management as consisting of three aspects: risk prevention, risk mitigation and risk coping. Each of these implies, according to TLM thinking, a series of specific (proposed) policies and instruments for each of the three types of risks mentioned. TLM theorists readily recognize that the three aspects of risk management and the specific policies and instruments associated with each of them imply a significant redistribution between collective and individual responsibility in actively managing the risks in question. This whole scheme, as described in more detail in Chapter 2, is summarized in Table 5 below¹⁹.

Table 5: Social Risks and their Management According to TLM

	Risk prevention	Risk mitigation	Risk coping
Class risks	<ul style="list-style-type: none"> • New employment norm • Life long learning arrangements • Working time arrangements • Making transitions pay policies • Making work pay policies • Improvement quality of jobs and quality of working conditions • Educational early childhood policies 	<ul style="list-style-type: none"> • Unemployment insurance • Vocational training arrangements 	<ul style="list-style-type: none"> • Life long learning • Vocational training • Increase of internal & external mobility
Gender risks	<ul style="list-style-type: none"> • New employment norm • Making 	<ul style="list-style-type: none"> • Day care provisions • Parental leave arrangements 	<ul style="list-style-type: none"> • Life long learning • Vocational training

¹⁹ See also: Gazier, Bernard, Tous ‘Sublimes’. Vers un nouveau plein-emploi. Flammarion, Paris 2003.

	<ul style="list-style-type: none"> transitions pay policies • Life long learning • Educational early childhood policies 		
Life course risks	<ul style="list-style-type: none"> • New employment norm • Making transitions pay policies • Enlarging working career over time • Working time arrangements • Educational early childhood policies 	<ul style="list-style-type: none"> • Mobility insurance • Time credit systems 	<ul style="list-style-type: none"> • Increase of internal and external mobility • Personal savings accounts for caring, education and temporary leave

But desirable as these proposed forms of risk preventing, mitigation and coping may appear in the abstract, there is no question that the results of our own research, as summarized in Chapter 5 above, give us many reasons for caution in making specific recommendations. At the very least, our research has uncovered a host of complexities associated with the many attempts at reforming labour market and social policies in the different member countries and beyond. Policies taken from one context often fail or backfire in another, or produce wholly unintended effects. This, in turn, is undoubtedly the result of the enormous diversity in institutional contexts, historical trajectories, the character and typical responses of the main social actors, and policy repertoires that our research also identified across Europe. Moreover, each of these institutional settings has generated its own sets of entrenched interests among the most powerful social actors, which will strongly affect their likely responses to efforts to undertake fundamental reforms of individual policies, let alone entire systems of labour market and welfare policies. And these responses, in turn, crucially determine the likely success or failure of such reform efforts.

In short, even if we were able to find consensus on the desirability of some coherent set of labour market and social policies, which, as our research findings show, is far from self-evident, there still remains the no doubt equally daunting task of tailoring their specific forms of implementation to the requirements of the different institutional contexts *and* to persuade the social actors in each of those contexts of their viability and desirability. In view of all these sobering considerations, we would like to conclude this policy analysis with a call for a very modest complement to the EES, which we would like to call, rather less modestly, the European Employment Insurance Strategy (EEIS). The EEIS would, in the first instance, function in the manner of an OMC, as a gathering place and clearing house for information about different efforts and experiments being conducted throughout the EU with new labour market and social policies and their evaluations in light of the EES targets. The framework and evaluative research developed within the TLM tradition could provide an important set of guiding principles for the EEIS in identifying the most interesting and promising experiments as well the most important criteria by which to evaluate them.

But it could also be more proactive than this. As the Danish case so clearly shows, it often takes very peculiar circumstances for systems that produce the desired combination of flexibility and security to emerge. Many of these preconditions are absent in other countries. It should be part of the new European Employment Insurance Strategy (EEIS) to help create those preconditions by informing the social partners in member states of the possibilities of entering into social pacts, based on local traditions and institutions, to be sure, in which both sides are willing to give up some of their cherished rights and privileges in the secure knowledge that it will permit both sides to make gains in the areas in which they feel the most urgent needs. As it gradually builds up an inventory of ‘best practices’ with respect to the policies and programs for social risk management identified in Table 5 above, the EEIS can play a crucial mediating role in bringing together various social partners from different countries to exchange notes on their experiences with recent policy reforms or lack thereof and, through this, eventually help bring together the social partners *within* the member countries to consider negotiating new social pacts based on the new information obtained through the channels created by the EEIS. It could even attempt to work out a very general guiding framework for such a social pact at the EU level itself. Furthermore, the EEIS would be able to play an active role, given its function as a gathering place of international expertise, in helping to tailor policies to national conditions and aspirations based on the best evaluative evidence and understanding available.

Starting from such relatively modest aims, we are convinced that the proposed EEIS can grow into one of the pivotal institutions around which a newly attractive European Social Model will be constructed, one that will be efficient as well as equitable, productive as well as just, flexible as well as secure.

EDITORIAL

This policy analysis is devoted to the relevant policy implications of the (comparative) EU's 5th Framework Programme project *Managing Social Risks through Transitional Labour Markets* (SETN-2002-00067) co-ordinated by SISWO/ Social Policy Research Amsterdam in close collaboration with the WZB (*Wissenschaftszentrum für Sozialforschung Berlin*), carried out between 2002 and 2005.

The TLM-project covers a research network of a little more than 20 labour market research institutes in the EU and Canada and is a successor of the EU's 4th Framework Programme project TRANSLAM (2002), co-ordinated by the WZB. Recently, the network has also applied for an IP(Integrated Project) (TRANSWELL) in the context of the actual 6th Framework Programme. If honoured, this project will be co-ordinated by OSA, in close collaboration with the University of Tilburg.

The original concept of transitional labour markets was coined at the time by professors Günther Schmid (WZB) and Bernard Gazier (MATISSE/CNRS Paris).

Our policy analysis is intended to contribute to a debate with policy makers and social partners at the European, national and regional levels and with representatives of international organizations (OECD, ILO) about the future of full employment in the European Union. It is mainly based on the analyses and activities as carried out in the various working packages of TLM.NET.

Annex 1: TLM.NET papers referred to in the Text

(2003)

Schömann, Klaus and Günther Schmid, [*The Concept of Transitional Labour Markets and Some Policy Conclusions: The State of the Art*](#)

(2004)

Aho, Simo, [*Short-Term Jobs and Labour Market Career Mobility in Finland*](#)

Allen, Jim and Robert de Vries, [*Determinants of Skill Mismatches: The Role of Learning Environment, The Match between Education and Job and Working Experience*](#)

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